PROVINCE OF NEWFOUNDLAND

REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF ASSEMBLY
ON THE AUDIT OF
THE FINANCIAL STATEMENTS OF THE PROVINCE

for the

YEAR ENDED

31 MARCH 1998

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ST. JOHN'S, NEWFOUNDLAND

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NEWFOUNDLAND AND LABRADOR

Office of the Auditor General

15 December 1998

The Honourable Lloyd Snow, M.H.A.
Speaker
House of Assembly

Dear Sir:

In compliance with the *Auditor General Act*, I have the honour to submit herewith, for transmission to the House of Assembly, my Report on the Audit of the Financial Statements of the Province for the year ended 31 March 1998.

Respectfully submitted,

Elizabeth Marshall

ELIZABETH MARSHALL, C.A.
Auditor General

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CHAPTER
1
AUDITOR GENERAL'S REPORT

1.1 Introduction

This report presents information on the Province's financial statements. The Auditor's Report on the financial statements is presented and explained for the information of the readers. Comments are also provided on the accounting policies used in the preparation of the financial statements and how they compare to the recommendations of the Canadian Institute of Chartered Accountants, which recommends the standards for good practice in financial reporting, accounting and auditing in the public sector.

The Consolidated Summary Financial Statements of the Province provide the most complete information about the operating results and financial position of the Province. These statements consolidate the financial position and results of operation of the Consolidated Revenue Fund, which account for the financial activities of central government and primarily the departments, with those of other Government entities.

In this report, we present a summary of certain financial information contained in the Consolidated Summary Financial Statements. Since the Consolidated Revenue Fund is the main component of Government's reporting entity in the Consolidated Summary Financial Statements, comments are directed to both the Consolidated Summary Financial Statements and the Consolidated Revenue Fund.

1.2 Legislative Requirements Relating to the Financial Statements of the Province

In accordance with section 59 of the *Financial Administration Act*, Government prepares a document called the *Public Accounts*. This document includes the Consolidated Summary Financial Statements of the Province and the Consolidated Revenue Fund financial statements, and in accordance with the Act must show:

- the state of the public debt;
- the revenue and expenditure;
- all compromises, remissions, refunds and amounts written off; and
- those other accounts and statements that may under good accounting practice be required to show the financial position of the Province at the end of the fiscal year.

Treasury Board prescribes the manner and form in which the Public Accounts of the Province are prepared, as provided for under the Act.

Section 11 of the *Auditor General Act* requires that the Auditor General express an opinion as to whether the financial statements included in the Public Accounts present fairly the financial position, results of operations and changes in the financial position of the Province in accordance with the disclosed accounting policies of the Provincial Government and on a basis consistent with that of the preceding year, together with reservations the Auditor General may have.

For the year ended 31 March 1998, the Public Accounts contain the Consolidated Summary Financial Statements, the Auditor General's Report on those financial statements, the Consolidated Revenue Fund financial statements, the Auditor General's Report on those financial statements, and other information which Government is required to include or chooses to include.

Since the recommendations of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants relating to financial reporting by governments have now become generally accepted within Canada, section 59 of the *Financial Administration Act* requires compliance with these recommendations to properly present the financial position of the Province at the end of the fiscal year.

1.3 Auditor's Report on the Financial Statements of the Province

The Auditor's Report on the Consolidated Summary Financial Statements of the Province for the year ended 31 March 1998 reads as follows:

To the House of Assembly
Province of Newfoundland

I have audited the consolidated summary statement of financial position of the Province of Newfoundland as at 31 March 1998 and the consolidated summary statements of revenue and expenditure, net debt and changes in financial position for the year then ended. These financial statements are the responsibility of Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Government, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated summary financial statements present fairly, in all material respects, the financial position of the Province of Newfoundland as at 31 March 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting policies disclosed in Note 1 to the consolidated summary financial statements applied on a basis consistent with that of the preceding year.

Elizabeth Marshall, C.A.
Auditor General

St. John's, Newfoundland
11 December 1998

1.4 Auditor's Report Explained

The Auditor's Report on the Consolidated Summary Financial Statements is in the format of the standard auditor's report recommended by the Canadian Institute of Chartered Accountants. The introductory paragraph of the Auditor's Report identifies the financial statements covered by the report and distinguishes between the responsibilities of management and those of the auditor.

The second paragraph informs the reader that the audit was planned and performed in accordance with professional standards and that judgments have been made in applying these standards.

The third paragraph then expresses the opinion which was formed based on the audit. This opinion contains conclusions about two matters. The first is whether the financial statements present fairly the Province's financial position, results of operations and changes in financial position. The second is whether the financial statements were prepared in accordance with the stated accounting policies of the Province on a consistent basis.

This year we report that the Consolidated Summary Financial Statements have been prepared in accordance with the accounting policies disclosed in Note 1(a) of the Consolidated Summary Financial Statements. As required by the *Auditor General Act*, we also report that these accounting policies have been applied on a basis consistent with that of the preceding year. Although not specifically referenced in the Auditor's Report, the notes to the financial statements and supporting schedules are an integral part of the financial statements and are included in our examination.

While the *Auditor General Act* requires that we express our opinion as to whether the financial statements present fairly the financial position of the Province in accordance with the disclosed basis of accounting, we must also consider the appropriateness of the stated accounting policies. In reviewing these accounting policies, we take into consideration the recommendations of the Canadian Institute of Chartered Accountants and the policies used by other jurisdictions in Canada.

The Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants has issued the *Public Sector Accounting and Auditing Handbook* that recommends standards for good practice in financial reporting, accounting and auditing in the public sector and also initiates research studies on public sector accounting and auditing matters. The *Handbook* recommendations apply to all governments unless their application is specifically limited in individual sections. The federal and most provincial governments substantially comply or plan to comply with its recommendations. Most legislative auditors comment on adherence to these recommendations in their annual reports and, where necessary, in their short-form Auditor's Report on the financial statements.

CHAPTER

2

COMMENTS ON GOVERNMENT'S ACCOUNTING POLICIES

2.1 Timeliness of the Province's Financial Statements

In order for financial statements to be useful, they have to provide relevant and reliable information on a timely basis. Traditionally, Government has tabled its financial statements in December, nine months after the year ended 31 March. In previous years, we recommended to Government that their financial statements be prepared on a more timely basis so as to provide the users with current financial information. Figure 1 provides the dates that the Consolidated Summary Financial Statements for the years ended 31 March 1997 and 1998 for the 11 jurisdictions in Canada were released.

Figure 1

Consolidated Summary Financial Statements
Release Dates
Years Ended 31 March

Jurisdiction	1997	1998
Newfoundland	18 December 1997	-
Nova Scotia	7 August 1997	31 July 1998
Prince Edward Island	30 January 1998	Not Released at Report Date
New Brunswick	13 August 1997	24 September 1998
Quebec	Not Produced	Not Released at Report Date
Ontario	9 September 1997	28 September 1998
Manitoba	31 October 1997	30 November 1998
Saskatchewan	4 September 1997	27 August 1998
Alberta	26 June 1997	24 June 1998
British Columbia	18 December 1997	20 October 1998
Canada	15 October 1997	15 October 1998

Figure 2 provides the dates that the Consolidated Revenue Fund financial statements for the years ended 31 March 1997 and 1998 for the 11 jurisdictions in Canada were released.

Figure 2

Consolidated Revenue Fund Financial Statements
Release Dates
Years Ended 31 March

Jurisdiction	1997	1998
Newfoundland	18 December 1997	-
Nova Scotia	7 August 1997	31 July 1998
Prince Edward Island	30 January 1998	Not Released at Report Date
New Brunswick	Unaudited	Unaudited
Quebec	18 December 1997	Not Released at Report Date
Ontario	9 September 1997	28 September 1998
Manitoba	17 September 1997	28 September 1998
Saskatchewan	4 September 1997	27 August 1998
Alberta	24 September 1997	30 September 1998
British Columbia	18 December 1997	20 October 1998
Canada	28 October 1997	17 November 1998

We received the first draft of the Consolidated Revenue Fund financial statements and the Consolidated Summary Financial Statements, for the year ended 31 March 1998, on 17 August 1998 (31 March 1997, on 14 August 1997) and 13 November 1998 (25 November 1997) respectively. This annual reporting is not timely and does not facilitate effective financial management of the Province.

Recommendation

Government should prepare its financial statements on a timely basis.

2.2 Government's Financial Reporting System

Government's financial statements are an important component of its financial management system and should show the results of operations and its financial position on a timely and periodic basis. Timely and periodic financial statements are important to effectively monitor and control

Government operations. Currently, neither monthly nor quarterly financial statements are prepared by Government to determine its results of operations and its financial position on an on-going basis. Rather, Government only prepares annual financial statements, and these are not available until nine months after the fiscal year end.

We indicated last year that Government was implementing a system which was expected to address the concerns related to timely and periodic reporting. This year we report that the system was not operational as at 31 March 1998. However, Government has indicated that the system will be fully operational before the next fiscal year end. As a result, we again report that there is no Government wide integrated accounting system to record, report and control Government's assets and liabilities and provide timely and periodic financial reporting.

2.3 Government Reporting Entity

The Canadian Institute of Chartered Accountants has developed criteria for governments to follow in the preparation of consolidated summary financial statements. These criteria require the Province's Consolidated Summary Financial Statements to include all organizations that are accountable for the administration of their financial affairs and resources either to a minister of government or directly to the legislature, and that are owned or controlled by government. A detailed schedule of organizations and enterprises included is shown in a schedule to the Consolidated Summary Financial Statements of the Province.

The Consolidated Summary Financial Statements of the Province provide the most complete information about the operating results and financial position of the government reporting entity. These statements consolidate the financial position and operating results of all government entities, together with the financial position and operating results of the Consolidated Revenue Fund. It is difficult to understand the overall financial position of government, without consolidating the financial position and operating results for all government entities into one summarized set of financial statements.

The Consolidated Summary Financial Statements include all organizations and enterprises that meet the criteria for inclusion, with the exception of the Workplace Health, Safety and Compensation Commission and Memorial University of Newfoundland, both of which meet the criteria.

Our review of the *Workers' Compensation Act* indicates the Commission is accountable to and controlled by Government. The Act, however, does not deal with ownership of the Commission and responsibility for its unfunded liability, which at 31 December 1997 was $91.7 million. The criteria of accountability and control are sufficient to warrant inclusion in the reporting entity. A note to the Schedule of Trust Accounts in the Consolidated Summary Financial Statements for the year ended 31 March 1998 indicated that Government considered the Commission to be a form of trust. This note disclosed information on the Commission's surplus and unfunded liability for the year ended 31 December 1997. The provinces of Saskatchewan, Manitoba and New Brunswick include their workers' compensation boards in their government's financial statements. Prince Edward Island provides note disclosure and in British Columbia and Ontario it is structured as a trust and is therefore excluded. The Auditor General of Nova Scotia has recommended inclusion of the province's workers' compensation board in its government's financial statements.

Recommendations

Memorial University of Newfoundland and the Workplace Health, Safety and Compensation Commission should be included in the Government reporting entity.

2.4 Government's Accounting Policies

Government has, for the most part, adopted the accounting standards issued by the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants. Government has to improve its capital asset reporting and should consider recording its revenues on a full accrual basis.

Figure 1 indicates the basis of accounting adopted by each of the 11 jurisdictions in Canada.

Figure 1

Basis of Accounting
Years Ended 31 March

Jurisdiction	1997	1998
Newfoundland	Modified accrual	Modified accrual
Nova Scotia	Modified accrual	Modified accrual
Prince Edward Island	Accrual	Accrual
New Brunswick	Accrual	Accrual
Quebec	Accrual for Expenditures Modified cash for revenues	Not yet tabled
Ontario	Modified accrual	Modified accrual
Manitoba	Modified accrual	Modified accrual
Saskatchewan	Accrual (except that income taxes are on a cash basis)	Accrual (except that income taxes are on a cash basis)
Alberta	Accrual (except that income taxes are on a cash basis)	Accrual
British Columbia	Accrual	Accrual
Canada	Modified accrual	Modified accrual

2.5 Comparative Budget Figures

Government presently prepares two sets of financial statements:

(i) Government's Consolidated Summary Financial Statements, which is the most complete financial information about the Province's financial position and operating results. These financial statements include the operations of Government departments and crown agencies but does not include Memorial University and the Workplace Health, Safety and Compensation Commission.

(ii) Consolidated Revenue Fund Financial Statements, which account for the financial activities of government departments.

While Government prepares two sets of financial statements, it is Government's Consolidated Summary Financial Statements, and not those of the Consolidated Revenue Fund, which reflect the overall financial position of the Province.

At the present time, Government's annual Estimates and Budget reflect only the activities of the Consolidated Revenue Fund and exclude many significant financial activities of the Province which occur outside the Consolidated Revenue Fund. There is no budget prepared for the Consolidated Summary Financial Statements and, therefore, there is no financial plan against which to compare Government's overall financial position and results of operations.

Consolidated summary budgets for Government are recommended by the Canadian Institute of Chartered Accountants, the professional body which recommends standards in financial reporting in the public sector. At the present time, four provinces and the federal government publish consolidated summary budgets.

The financial statements of the Consolidated Revenue Fund are prepared on the modified accrual basis of accounting while the comparative budget figures are prepared on the modified cash basis. As a result, the financial statements and the Budget of the Consolidated Revenue Fund are not comparable and, as such, diminish the usefulness of the information provided. Although Volume III of the Public Accounts does compare actual and budget figures on a modified cash basis, and then reconciles the actual modified cash figures with the actual modified accrual figures, this information is not a substitute for preparing a budget on a basis consistent with the actual financial information presented in the financial statements of the Consolidated Revenue Fund.

Recommendations

Government should prepare a summary budget based on the budgets of all entities included in the Government reporting entity. The summary budget amounts should be prepared on the accrual basis of accounting and disclosed in the Consolidated Summary Financial Statements for comparative purposes with actual results.

Government should prepare the budget for the Consolidated Revenue Fund on the accrual basis of accounting.

CHAPTER

3

COMMENTS ON SELECTED FINANCIAL INFORMATION

3.1 Amounts Owing to Government

Government policy requires that an accounts receivable system be maintained by government departments, that departments ensure all receivables are properly recorded in their books of account and that collection be actively pursued.

Figure 1 outlines information on accounts and taxes receivable, and loans, advances and mortgages receivable, and the related allowances for doubtful accounts as disclosed in the Consolidated Revenue Fund for the year ended 31 March 1998. This figure also includes the amount Government has written off during the past five years related to these accounts. During that period, Government has also written off $11,167 million in tax forgiveness and $12,270 million in tax remissions.

Figure 1

Consolidated Revenue Fund
Accounts, Taxes, Loans, Advances and Mortgages Receivable
Years Ended 31 March
($000's)

	1994	1995	1996	1997	1998	Total
Total Receivables	$544,156	$551,764	$537,153	$474,797	$461,612	
Less: Amounts Considered to be Uncollectible	255,565	279,065	279,924	215,210	211,832	
Net Receivables	$288,591	$272,699	$257,229	$259,587	$249,780	
Accounts Written off	**$ 14,242**	**$ 5,398**	**$ 20,790**	**$ 69,877**	**$ 7,952**	**$118,259**

The Canadian Institute of Chartered Accountants (CICA) recommends how to account for and report loans receivable in government financial statements, giving particular attention to special characteristics that distinguish them from commercial loans made in the private sector.

The CICA defines a loan receivable as a financial asset of a government represented by a promise by a borrower to repay a specific amount at a specified time or times, or on demand, usually with interest. Key to this definition is the fact that financial assets provide resources to discharge existing liabilities or finance future operations.

The CICA has recommended that when a direct relationship can be established between the repayment of a loan and a government's funding to the borrower, the portion of the loan that is expected to be recovered from future appropriations from government should be accounted for as an expenditure. When the terms of a loan are so concessionary that the substance of the transaction is that all or a significant part of the loan is more in the nature of a grant, the grant portion of the transaction should be recognized as an expenditure when the loan is made. A loan receivable should be removed from a government's statement of financial position when it has been repaid, the risks and rewards associated with the loan have been transferred, the right to repayment has expired or been waived, or it is written off.

A number of the recommendations made by the CICA apply to the accounting policies of Government and should be considered in preparing the financial statements. These include the following:

- The CICA describes a loan receivable as a financial asset of a government represented by a promise by a borrower to repay a specific amount, at a specified time or times, or on demand, and usually with interest. Loans being established where there may not be a reasonable expectation of recovery would not qualify as a financial asset. In the 1997-98 fiscal year, $98,858 (1996-97 - $821,668) of new loans were established for payments made by the Province to honour guarantees it provided on debt. All of these new loans were recorded as assets of the Province while also being added to its allowance for doubtful accounts. Therefore, loans were recorded even though there was not a reasonable expectation of recovery.

- The CICA recommends that when the terms of a loan are so concessionary that the substance of the transaction is that all or a significant part of the loan is more in the nature of a grant, the grant portion should be recognized as an expenditure when the loan is made. During the year, advances totalling $507,758 (1996-97 - $507,758) were made to Newco IV Corporation and had been recorded as a loan receivable even though there were no specified repayment terms.

- The CICA provides guidance as to the proper disclosure of loans receivable. Currently, the Province's financial statements do not disclose such items as the repayment terms, interest terms and security held for any of its loans and advances receivable as recommended by CICA.

Recommendation

Recommendations of the Canadian Institute of Chartered Accountants, for loans receivable, should be followed in the preparation of the financial statements of the Province.

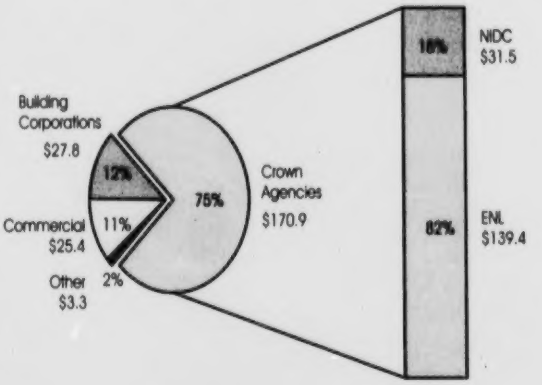
Crown Lending Agencies

The Province of Newfoundland lends money to individuals, organizations and local governments to achieve policy objectives and, to a lesser extent, to earn a return on the use of Government funds. These loans may be used to support regional development and provide economic assistance to those who qualify.

The Statement of Assets and Liabilities of the Consolidated Revenue Fund as at 31 March 1998 disclosed loans, advances and mortgages receivable of $227.4 million (1997- $238.8 million), less an allowance for doubtful accounts of $135.6 million (1997 - $138.4 million). Figure 2 discloses the composition of these loans, advances and mortgages receivable.

Figure 2

Consolidated Revenue Fund
Composition of Loans, Advances and Mortgages Receivable
31 March 1998
($ Millions)



Source: 31 March 1998 Loans, Advances and Mortgages Receivable Schedule, Consolidated Revenue Fund

The funds advanced to the Crown lending agencies by the Province are in turn lent to individuals and corporations. Three of these Crown agencies account for 61% of the Province's loans, advances and mortgages receivable. These agencies are

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The CICA has recommended that when a direct relationship can be established between the repayment of a loan and a government's funding to the borrower, the portion of the loan that is expected to be recovered from future appropriations from government should be accounted for as an expenditure. When the terms of a loan are so concessionary that the substance of the transaction is that all or a significant part of the loan is more in the nature of a grant, the grant portion of the transaction should be recognized as an expenditure when the loan is made. A loan receivable should be removed from a government's statement of financial position when it has been repaid, the risks and rewards associated with the loan have been transferred, the right to repayment has expired or been waived, or it is written off.

A number of the recommendations made by the CICA apply to the accounting policies of Government and should be considered in preparing the financial statements. These include the following:

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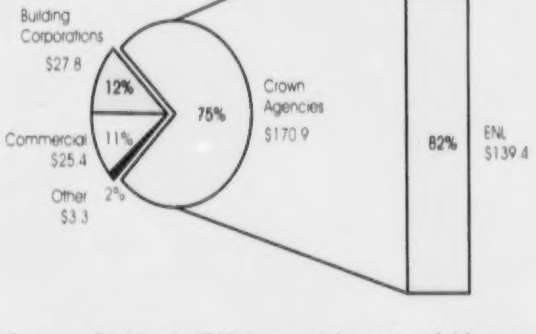
31 March 1998
($ Millions)



Source: 31 March 1998 Loans, Advances and Mortgages Receivable Schedule, Consolidated Revenue Fund

The funds advanced to the Crown lending agencies by the Province are in turn lent to individuals and corporations. Three of these Crown agencies account for 61% of the Province's loans, advances and mortgages receivable. These agencies are

listed in Figure 3 along with their loan and equity portfolios.

Figure 3

Loan and Equity Portfolios of Crown Agencies
Years Ended 31 March
($ 000's)

Crown Agency	1997	1998 (unaudited)
Enterprise Newfoundland and Labrador Corporation	$ 80,705	$78,693
Farm Development Loan Board	10,706	9,527
Fisheries Loan Board	37,598	32,539
Total	**$129,009**	**$120,759**

Source: 31 March 1998 draft financial statements of Crown agencies

In 1994 we completed a review of the financial statements of Enterprise Newfoundland and Labrador Corporation and its predecessor agencies, as well as the Farm Development Loan Board and the Fisheries Loan Board since 1980 to determine:

- total loans issued, including interest, as disclosed in their respective financial statements;
- amounts repaid;
- amounts written off;
- balances outstanding; and
- amounts deemed uncollectible.

As at 31 March 1979, the predecessor entities of Enterprise Newfoundland and Labrador Corporation (ENL), the Farm Development Loan Board (FDLB) and the Fisheries Loan Board (FLB) had a combined loan and equity portfolio of approximately $48.5 million. To 31 March 1998, an additional $471.8 million in loans and interest have been added to the portfolios. Of this $520.3 million portfolio, 65% has been repaid, 26% was written off or considered uncollectible and a net receivable of 9% is still outstanding. Figure 4 summarizes these amounts by entity.

Figure 4

Loan and Equity Portfolios of Crown Agencies
Summary of Findings
($ Millions)

Agency	31 March 1979 Balance	1979-98 Loans Equity and Interest	Amount Repaid	Amounts Written Off	31 March 1998 Balance	Amounts Considered Uncollectible	Percent of Accounts Written Off or Considered Uncollectible
ENL	$ 22.1	$ 257.0	$ 159.2	$ 41.2	$ 78.7	$ 46.5	31.4%
FDLB	2.1	41.0	32.5	1.1	9.5	3.9	11.6%
FLB	24.3	173.8	147.0	18.6	32.5	26.4	22.7%
Total	**$ 48.5**	**$ 471.8**	**$ 338.7**	**$ 60.9**	**$ 120.7**	**$ 76.8**	**26.5%**

Source: 1979-1997 audited financial statements and 31 March 1998 unaudited financial statements listed in Figure 3 along with their loan and equity portfolios.

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FLB	24.3	173.8	147.0	18.6	32.5	26.4	22.7%
Total	**$ 48.5**	**$ 471.8**	**$ 338.7**	**$ 60.9**	**$ 120.7**	**$ 76.8**	**26.5%**

Source: 1979-1997 audited financial statements and 31 March 1998 unaudited financial statements

3.2 Tangible Capital Assets

The Canadian Institute of Chartered Accountants (CICA) issued, in September 1997, the accounting and reporting standards for the tangible capital assets of governments. Tangible capital assets include such items as roads, buildings, vehicles, equipment, land, water systems, aircraft, computer hardware and software, dams, canals and bridges.

Tangible capital assets should be accounted for and reported as assets on a Statement of Tangible Capital Assets at cost. For each major category of tangible capital assets, the Statement of Tangible Capital Assets should disclose cost, additions, disposals, the amount of any writedowns in the period, the amount of amortization of the costs of tangible capital assets for the period, accumulated amortization, the amortization method and rate used, and the net book value.

As permitted by the CICA, tangible capital assets are currently not valued for presentation in the financial statements of the Consolidated Revenue Fund but are expensed in the year of acquisition or construction. Government has also disclosed information on its tangible capital assets in the Schedule of Tangible Capital Assets to the Consolidated Revenue Fund financial statements.

In recent years, the Province has changed the disclosure of information on capital assets in efforts to improve the usefulness of the information provided. Prior to 1994-95, information on capital assets was based on the dollars spent since Confederation. Since 1994, the information disclosed is based on Government's physical asset inventories. For the year ended 31 March 1998, the Schedule of Tangible Capital Assets in the Consolidated Revenue Fund financial statements includes information on the estimated historical cost of capital assets which are in excess of $100,000 each, additions and disposals, estimated useful life of the capital assets, annual and accumulated amortization, and net book value.

While the Province has continued its efforts to improve information disclosed on capital assets, further improvements are still required in order for the Province to comply with CICA recommendations for tangible capital assets. In addition, issues regarding the incompleteness of information on capital assets disclosed in the Schedule, the lack of an accounting system to record information on capital assets, and the lack of clear and documented criteria and guidelines for the definition of a capital asset and the relevant costs to be included in this definition, remain a concern.

The Province has indicated that it is still in the process of establishing the completeness and reasonableness of the cost estimates as disclosed in the Schedule of Tangible Capital Assets. In addition, Treasury Board Secretariat has indicated again this year that a study is planned to examine capital asset recording and reporting in the Province's financial statements which will address these concerns.

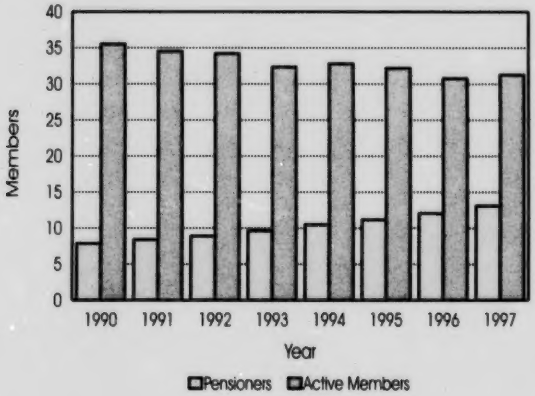
3.3 Employee Pension Obligations

Prior to 1967, public service salaries and pension benefits were paid under the authority of the *Civil Service Act*. Under that legislation there were no employee or employer contributions to a pension plan and pension benefits were paid out of the Consolidated Revenue Fund. In 1967, legislation was enacted which required that employees contribute to a pension plan. Employees' pension premiums were paid into the Consolidated Revenue Fund and pension benefits continued to be paid out of it.

In 1981, legislation was enacted which created the Province of Newfoundland Pooled Pension Fund and required that employee and employer pension premium contributions be paid into the Fund. Subsequent to the establishment of the Fund, pension benefits were paid by the Fund irrespective of whether the employee had contributed pension premiums to it. Figure 1 provides historical data for the Fund relating to pensioners and active members for the past eight years.

Figure 1

Province of Newfoundland Pooled Pension Fund
Population History: Pensioners and Active Members
Years Ended 31 December
(000's)

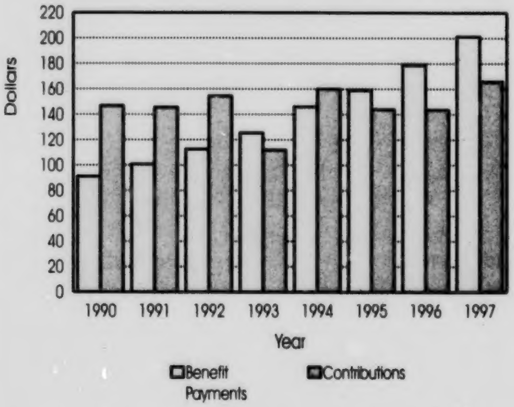


The Province of Newfoundland Pooled Pension Fund is comprised of four pension plans: the Public Service Pension Plan, the Teachers' Pension Plan, the Uniformed Services Pension Plan, and the Members of the House of Assembly Pension Plan. All employee and employer contributions are deposited into the Fund and pension benefits to plan members and other pension payments are made from it.

Our review disclosed that for the year ended 31 December 1997, approximately 31,300 employees, Members of the House of Assembly, and the employer paid pension premiums totalling $166 million into the Pension Fund under the four pension plans. Premiums of $166 million include a $30 million contribution by the employer in excess of matching provisions. During the same period, the Fund provided benefits totalling $201 million to approximately 13,100 retirees. Figure 2 provides historical data for the Fund relating to pension benefits paid and pension contributions received for the past eight years.

Figure 2

Province of Newfoundland Pooled Pension Fund
Pension Benefit Payments and Contributions
Years Ended 31 December
($ Millions)



Commencing during the 1997-98 fiscal year, Government started to make special payments to the Public Service Pension Plan to address the unfunded liability which at 31 March 1998 was $2.189 billion. Government contributed $30 million in each of 1997-98 and 1998-99. In 1999-2000 Government will continue with payments of at least $40 million per year. In addition, Government has increased the contributions for employees and employers over the next four years. These actions are expected to extend the life of the Plan beyond the year 2030.

During 1998-99, Government negotiated a new collective agreement with the Newfoundland and Labrador Teachers' Association which included provisions to address the unfunded liability of the Teachers' Pension Plan which as of 31 March 1998 was $1.960 billion. In accordance with the agreement, Government will contribute up to $815 million to the Plan over a 14 year period. Government paid $166 million toward this commitment in September 1998 and will make a further payment of $166 million on or before 1 September 1999. Additional annual payments are to be made in instalments of $76 million over a 12 year period commencing on or before 1 September 2000 and contributions rates for all teachers and the

Government were increased by 0.5% effective 1 September 1998.

The Uniformed Services Pension Plan and the Members of the House of Assembly Pension Plan have no assets. In the case of the Uniformed Services Plan, the pension liability will increase from the present $177.4 million to an estimated $349.0 million in 2026. In the case of the Members of the House of Assembly Pension Plan the pension liability will increase from the present $40.7 million to an estimated $107.4 million in 2024.

In our reports to the House of Assembly for the years ended 31 March 1993 to 1997, we recommended that Government address its unfunded pension liability. Government has taken action to address the unfunded liability of the Public Service Pension Plan and has recently finalized an agreement with the Newfoundland and Labrador Teachers' Association to address the unfunded liability of the Teachers' Pension Plan. While these measures will favourably impact the unfunded liabilities, we are still concerned with the extent of the Province's overall unfunded liability which as at 31 March 1998 was $3.134 billion.

Recommendation

Government should continue in its efforts to address its unfunded pension liability.

3.4 Loan Guarantees

A loan guarantee represents an undertaking by the Province that it will pay the outstanding principal and interest relating to a guaranteed obligation in the event of a default by the borrower. These guarantees may be used to support regional development or to give economic assistance to certain industries or individuals who meet specified criteria. The Province has guaranteed the repayment of principal and interest of certain debentures and bank loans on behalf of municipalities, individuals, and private and Crown corporations. The responsibility for the issuance of these guarantees rests with the Minister of Finance or such other minister as the Lieutenant-Governor in Council may designate.

These guarantees are not recorded as a direct liability of the Province because they become such only in the event of default. Accordingly, outstanding guarantees are disclosed in a schedule to the Consolidated Revenue Fund financial statements. A summary of these guarantees is presented in Figure 1.

Figure 1

Consolidated Revenue Fund
Loan Guarantees
Years Ended 31 March
($ 000's)

Description of Guarantee	1997		1998	
	Amount	%	Amount	%
Debentures				
Newfoundland and Labrador Hydro	$1,100,241	64	$1,135,010	67
Newfoundland Municipal Financing Corporation	442,527	26	365,239	22
Municipalities	2,378	-	2,220	-
Newfoundland Liquor Corporation	900	-	700	-
Bank Loans				
Crown Corporations	77,543	5	83,036	5
Fisheries	19,158	1	19,720	1
Municipalities	16,271	1	12,427	1
Corporate	4,122	-	8,353	-
Other	52,467	3	70,169	4
Total	$ 1,715,607	100	$1,696,874	100

The Canadian Institute of Chartered Accountants recommends that loan guarantees be accounted for and reported as contingent liabilities and that a provision for losses on loan guarantees be established when it is determined that a loss is likely. For the year ended 31 March 1998 the Province has established a provision of $87.0 million for expected losses on loan guarantees.

For the period 1 April 1983 to 31 March 1998 the Province has issued corporate loan guarantees totalling $137.5 million and has been obligated to make payments totalling $76.1 million on these guarantees. Also, the Province has been obligated

Government were increased by 0.5% effective 1 September 1998.

The Uniformed Services Pension Plan and the Members of the House of Assembly Pension Plan have no assets. In the case of the Uniformed Services Plan, the pension liability will increase from the present $177.4 million to an estimated $349.0 million in 2026. In the case of the Members of the House of Assembly Pension Plan the pension liability will increase from the present $40.7 million to an estimated $107.4 million in 2024.

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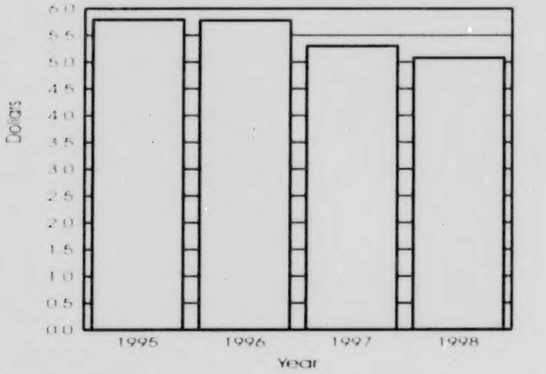
For the period 1 April 1983 to 31 March 1998 the Province has issued corporate loan guarantees totalling $137.5 million and has been obligated to make payments totalling $76.1 million on these guarantees. Also, the Province has been obligated to make payments totalling $3.0 million on fisheries loan guarantees. All of these payouts under guarantee were originally recorded as loans receivable of the Province.

3.5 Debt

As at 31 March 1998, total borrowings were reported in the Consolidated Statement of Financial Position at $5.046 billion. Total borrowings consist of general debentures, amounts borrowed from the Government of Canada and its agencies, as well as other notes and loans payable by the Province. The total of these amounts is reduced by sinking fund assets for various debentures. The total debt of the Province is comprised of $4.437 billion in debt reflected in the Consolidated Revenue Fund, $0.365 billion in Newfoundland Municipal Financing Corporation debt, $0.134 billion in Newfoundland and Labrador Housing Corporation debt, and other miscellaneous debt of $0.110 billion. Figure 1 shows the total debt owing as at 31 March 1995 to 1998 as disclosed in the Consolidated Statement of Financial Position.

Figure 1

Consolidated Summary Financial Statements
Total Provincial Debt
Years Ended 31 March
($ Billions)



Discussion in the first part of this report section deals with information relating to the Consolidated Summary Financial Statements of the Province. The remainder of this report section deals with information relating to the Consolidated Revenue Fund financial statements.

The Province's Borrowing Program

The Department of Finance is responsible for arranging and directing the annual borrowing requirements of the Province. The provincial budget determines how much capital market borrowing is required for a fiscal year. The Department monitors the capital markets and provides advice on when and where to borrow. For the 1997-98 fiscal year the Province borrowed $289.4 million compared to the estimated total borrowing requirements of $422.0 million. Figure 2 compares the Province's estimated and actual borrowing requirements for 1997-98.

Figure 2

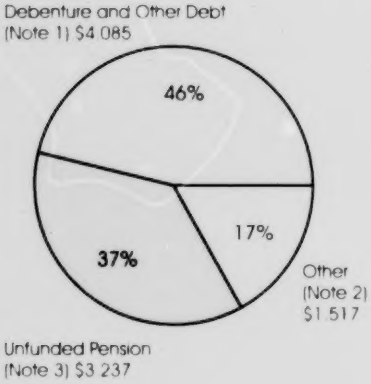
Consolidated Revenue Fund
Borrowing Requirements
Year Ended 31 March 1998
($ 000's)

	Estimate	Actual
Current Account	$(110,479)	$(125,622)
Capital Account	100,790	132,353
Debt Redemptions	159,821	382,612
Foreign Exchange Losses	-	35,033
Sinking Fund Contributions	45,831	42,489
Retirement of Pension Liabilities	196,000	30,000
Reduction in Temporary Investments	-	(352,676)
Deferred Revenue - H.S.T.	-	127,080
Other	30,000	18,156
Total	**$ 421,963**	**$ 289,425**

Total liabilities reported in the Consolidated Revenue Fund financial statements as at 31 March 1998 amounted to $8.839 billion. The composition of these liabilities is shown in Figure 3.

Figure 3

Consolidated Revenue Fund
Composition of Liabilities
31 March 1998
($ Billions)



Note 1: Debenture and other debt of $5.018 billion less sinking funds of $933 million.
Note 2: Includes $385 million in treasury bills.
Note 3: Unfunded pension liability includes $103 million in unamortized experience gains.

Our review of the Consolidated Revenue Fund financial statements also disclosed that, over the past 15 years, debenture and other debt has increased from $2.909 billion in 1984 to a high of $5.646 billion in 1995 and then decreased to $5.018 billion in 1998 (see Figure 4).

Figure 4

Consolidated Revenue Fund
Debt Structure
Years Ended 31 March
($ Billions)

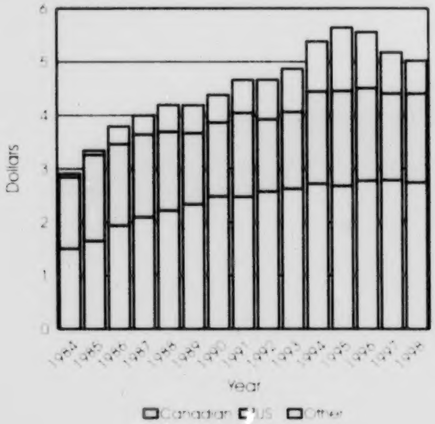
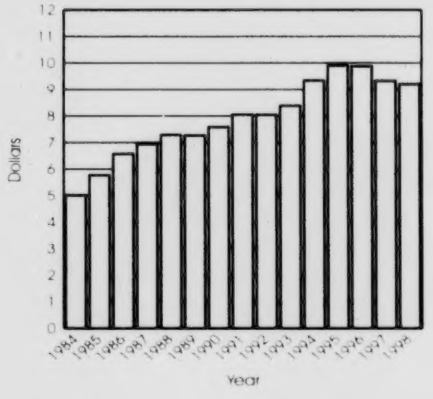


Figure 5 shows that the debt per capita has increased from $5,000 in 1984 to a high of $9,798 in 1995 and then decreased to $9,198 in 1998.

Figure 5

Consolidated Revenue Fund
Debt per Capita
Years Ended 31 March
($ 000's)



The Province's debt expense for 1997-98 as recorded in the Consolidated Revenue Fund financial statements is $766.0 million, which consists of $243.1 million of pension interest to make payments totalling $3.0 million on fisheries loan guarantees. All of these payouts under guarantee were originally recorded as loans receivable of the Province.

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As at 31 March 1998, total borrowings were reported in the Consolidated Statement of Financial Position at $5.046 billion. Total borrowings consist of general debentures, amounts borrowed from the Government of Canada and its agencies, as well as other notes and loans payable by the Province. The total of these amounts is reduced by sinking fund assets for various debentures. The total debt of the Province is comprised of $4.437 billion in debt reflected in the Consolidated Revenue Fund, $0.365 billion in Newfoundland Municipal Financing Corporation debt, $0.134 billion in Newfoundland and Labrador Housing Corporation debt, and other miscellaneous debt of $0.110 billion. Figure 1 shows the total debt owing as at 31 March 1995 to 1998 as disclosed in the Consolidated Statement of Financial Position.

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Consolidated Summary Financial Statements
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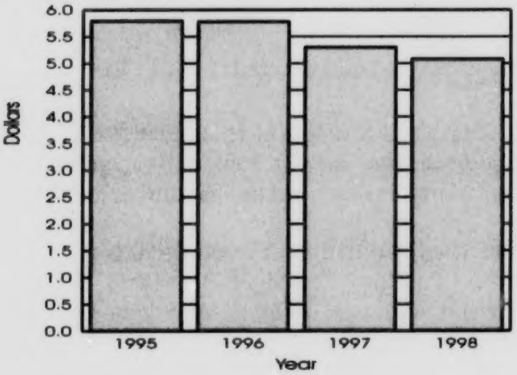
Years Ended 31 March
($ Billions)



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	Estimate	Actual
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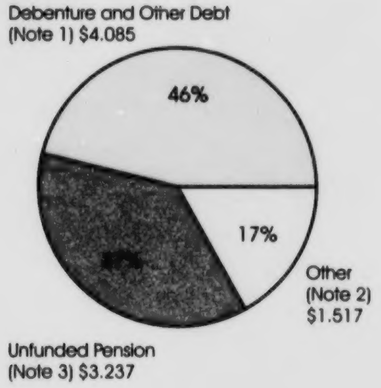
Foreign Exchange Losses	-	35,033
Sinking Fund Contributions	45,831	42,489
Retirement of Pension Liabilities	196,000	30,000
Reduction in Temporary Investments	-	(352,676)
Deferred Revenue - H.S.T.	-	127,080
Other	30,000	18,156
Total	[illegible]	[illegible]

Total liabilities reported in the Consolidated Revenue Fund financial statements as at 31 March 1998 amounted to $8.839 billion. The composition of these liabilities is shown in Figure 3.

Figure 3

Consolidated Revenue Fund
Composition of Liabilities
31 March 1998
($ Billions)



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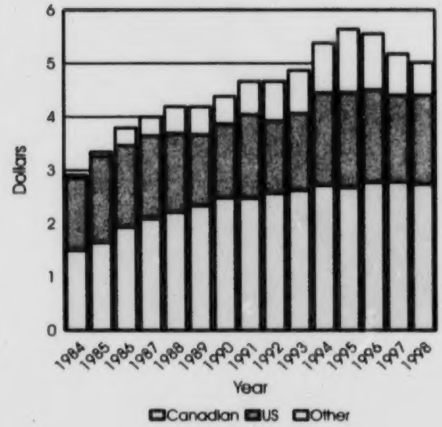
Our review of the Consolidated Revenue Fund financial statements also disclosed that, over the past 15 years, debenture and other debt has increased from $2.909 billion in 1984 to a high of $5.646 billion in 1995 and then decreased to $5.018 billion in 1998 (see Figure 4).

Figure 4

Consolidated Revenue Fund
Debt Structure
Years Ended 31 March
($ Billions)



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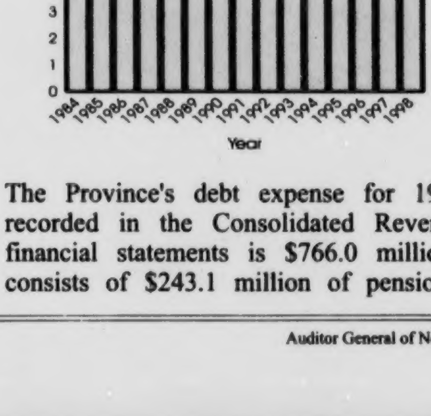
Years Ended 31 March
($ 000's)

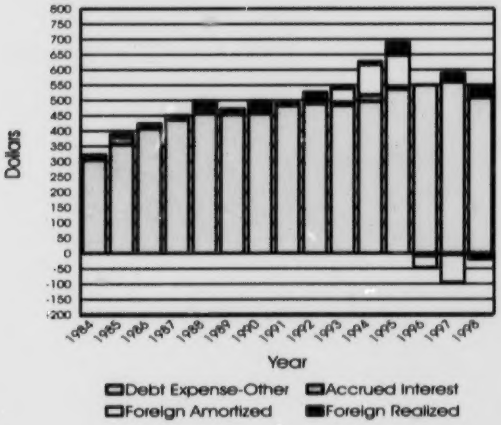


The Province's debt expense for 1997-98 as recorded in the Consolidated Revenue Fund financial statements is $766.0 million, which consists of $243.1 million of pension interest expense on the unfunded pension liability and $522.9 million which relates to the cost of servicing the Province's debt.

Our review of the Consolidated Revenue Fund financial statements over the past 15 years also disclosed that the cost of servicing the Province's debt has increased from $322.4 million in 1984 to a high of $690.1 million in 1995 and then decreased to $522.9 million in 1998. This information is contained in Figure 6.

Figure 6

Consolidated Revenue Fund
Debt Servicing Costs
Years Ended 31 March
($ Millions)



The composition of the cost of servicing the Province's debt for the year ended 31 March 1998 is indicated in Figure 7.

Figure 7

Consolidated Revenue Fund
Debt Servicing Costs
Year Ended 31 March 1998
($ Millions)

Issue	Debt Servicing Cost	Percentage of Total Debt Servicing Cost	Percentage of Debt Portfolio
Canadian	202.5	38.7%	36.2%
CPP/Gov't of Canada	78.0	14.9%	11.8%
United States	165.5	31.7%	29.1%
Swiss	53.8	10.3%	9.4%
Japanese	-1.7	-0.3%	1.3%
Other	24.8	4.7%	12.2%
Total	**522.9**	**100.0%**	**100.0%**

Sections 48 and 49 of the *Financial Administration Act* govern the issuance of temporary loans and Order in Council 94-343 sets predefined limits of $730 million ($240 million line of credit and $490 million in treasury bill borrowings). The line of credit is directly from the bank and includes overdraft protection and other details as outlined in the Banking Services Agreement between the chartered bank and the Province. Of the $490 million approved limit, the Province maintains a minimum constant borrowing of approximately $390 million in discounted treasury bills.

3.6 Foreign Debt

As at 31 March 1998, total debenture and other debt outstanding, as disclosed in the Consolidated Revenue Fund financial statements, was $5.018 billion of which $2.279 billion or 45.4% was repayable in foreign currencies.

Our review of the debenture and other debt as reported in the Province's Consolidated Revenue Fund as at 31 March 1995, 1996, 1997 and 1998 indicated that there was a net increase for 1995 from the previous year of $246 million. For 1996, 1997 and 1998 there were net decreases from prior years of $92 million, $379 million and $157 million respectively. The net changes for the four years resulted from the transactions shown in Figure 1.

Figure 1

Consolidated Revenue Fund
Change in Debenture and Other Debt
Years Ended 31 March
($ Millions)

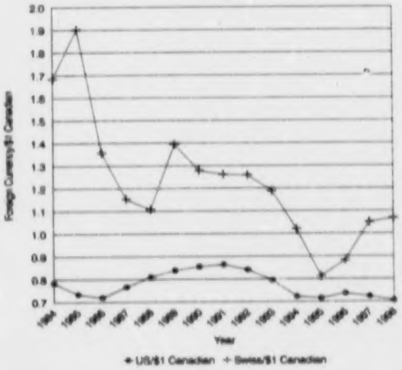
	1995	1996	1997	1998
Outstanding debenture and other debt, beginning of year	$5,400	$5,646	$5,554	$5,175
New debt	277	250	100	289
Debt retired	(241)	(158)	(357)	(479)
Increase (decrease) in debt due to changes in the value of the Canadian dollar	210	(184)	(122)	33
Outstanding debenture and other debt, end of year	$5,646	$5,554	$5,175	$5,018

The cost of borrowing in foreign currencies is affected by fluctuations in the value of the Canadian dollar. There is a risk that if the value of the Canadian dollar declines in relation to other currencies, the cost of purchasing foreign currencies to pay interest charges or to retire the debt increases.

Figure 2 indicates the exchange rate fluctuations related to the foreign currency debt of the Province.

Figure 2

Exchange Rates
31 March



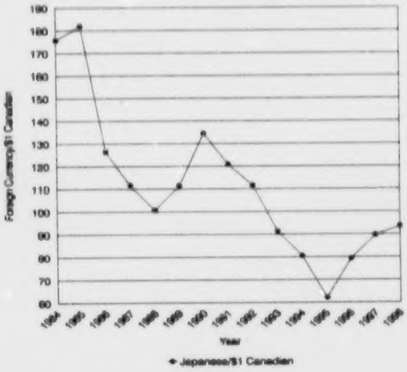


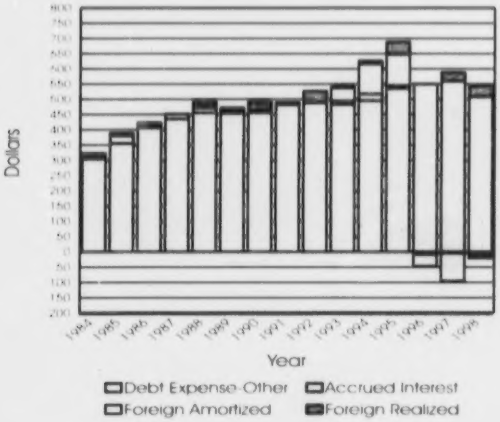
Figure 3 indicates the foreign currency debt issues outstanding as at 31 March 1998. The figure also indicates the interest rate stipulated in the debenture or loan agreement, the Canadian interest rate at the time of issue (as indicated by the Department of Finance) and the effective cost of borrowing for the fiscal years 1994 to 1998.

expense on the unfunded pension liability and $522.9 million which relates to the cost of servicing the Province's debt.

Our review of the Consolidated Revenue Fund financial statements over the past 15 years also disclosed that the cost of servicing the Province's debt has increased from $322.4 million in 1984 to a high of $690.1 million in 1995 and then decreased to $522.9 million in 1998. This information is contained in Figure 6.

Figure 6

Consolidated Revenue Fund
Debt Servicing Costs
Years Ended 31 March
($ Millions)



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**Exchange Rates
31 March**

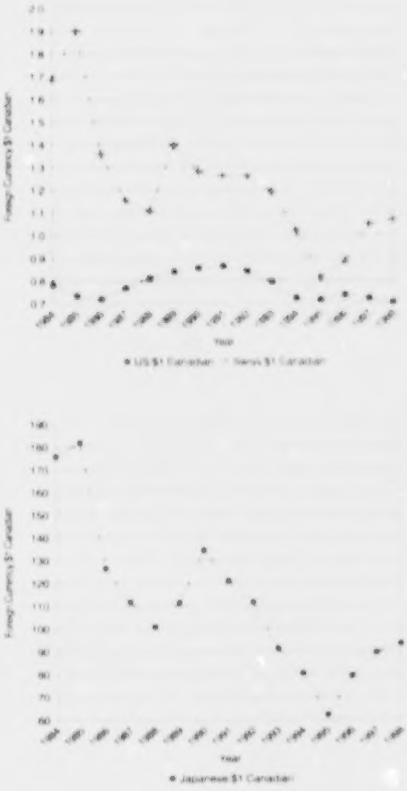


Figure 3 indicates the foreign currency debt issues outstanding as at 31 March 1998. The figure also indicates the interest rate stipulated in the debenture or loan agreement, the Canadian interest rate at the time of issue (as indicated by the Department of Finance) and the effective cost of borrowing for the fiscal years 1994 to 1998.

Figure 3

Effective Cost of Borrowing
Foreign Currency Debt

Issue	Interest Rate Per Debenture or Loan Agreement	Canadian Interest Rate Available at Time of Issue	Effective Cost of Borrowing *				
			1993-94	1994-95	1995-96	1996-97	1997-98
J6 (Japanese Yen)	5.400%	10.125%	42.330%	17.160%	-	-	-
J7 (Japanese Yen)	5.400%	10.125%	42.330%	17.160%	-	-	-
J8 (Japanese Yen)	6.250%	9.350%	25.120%	37.770%	(6.630%)	5.610%	-
J9 (Japanese Yen)	4.800%	8.900%	-	7.690%	(0.290%)	(3.080%)	(2.334%)
J10(Japanese Yen)	4.950%	8.900%	-	6.770%	(1.600%)	(1.060%)	(0.674%)
S3 (Swiss Franc)	5.375%	11.250%	22.190%	37.420%	5.050%	(8.020%)	9.074%
S4 (Swiss Franc)	5.125%	11.125%	11.960%	21.750%	2.650%	(5.140%)	2.671%
S5 (Swiss Franc)	5.000%	11.000%	11.090%	20.810%	4.530%	(3.670%)	15.925%
S6 (Swiss Franc)	7.500%	11.900%	13.710%	24.610%	6.750%	(2.990%)	6.928%
S7 (Swiss Franc)	7.000%	11.000%	14.490%	25.150%	11.100%	1.860%	10.295%
S8 (Swiss Franc)	3.250%	5.700%	-	-	-	-	2.034%
AE (U.S.$)	8.500%	9.750%	11.120%	7.180%	4.110%	3.030%	-
AF (U.S.$)	11.625%	12.500%	13.150%	11.400%	9.530%	10.540%	11.319%
AG (U.S.$)	9.000%	10.100%	11.060%	10.330%	9.040%	9.990%	10.451%
AH (U.S.$)	9.875%	11.850%	12.740%	12.270%	11.160%	12.210%	12.898%
AJ (U.S.$)	10.000%	11.800%	12.920%	12.560%	11.520%	12.490%	13.211%
AK (U.S.$)	9.000%	10.750%	12.070%	11.880%	10.480%	11.830%	12.381%
AL (U.S.$)	6.050%	8.640%	14.740%	-	-	-	-
AM (U.S.$)	8.650%	9.800%	9.920%	10.020%	9.300%	10.010%	10.466%
AN (U.S.$)	7.320%	8.500%	7.730%	7.810%	7.320%	7.680%	8.051%
J11 (U.S.$)	8.500%	8.900%	-	7.820%	5.390%	6.980%	8.055%

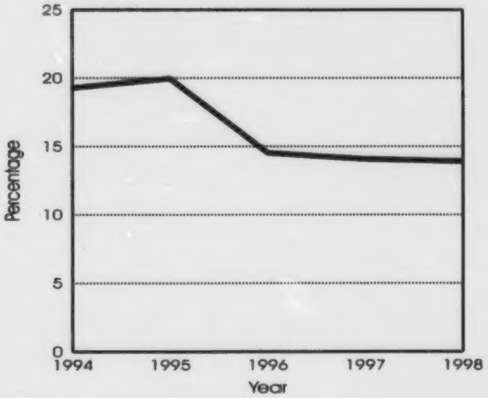
* The effective cost of borrowing represents the costs of interest, the amortization of foreign exchange gains and losses, and realized exchange gains and losses on sinking fund contributions expressed as a percentage of the Canadian dollars received from the debt at the time of issue.

When interest costs on provincial debt exceed any surpluses in revenue over expenditure, Government will have to borrow to cover the shortfall. Additional borrowing causes the total provincial debt to increase and results in even higher interest costs in the following year. This means that Government will have to run even higher surpluses on spending than in the previous year just to cover the growing interest costs for the current period. As long as Government runs a total budget deficit, that is, when total Government expenditures, including interest, exceed revenues, the absolute size of the provincial debt will continue to grow causing interest payments to grow. The more Government spends on interest costs the less it has available to spend on Government programs.

Figure 4 indicates that interest costs as a percentage of total revenue of the Consolidated Revenue Fund increased for the years 1994 and 1995 and then have decreased for 1996 to 1998.

Figure 4

Consolidated Revenue Fund
Interest Costs on Debenture Debt
As a Percentage of Total Revenue
Years Ended 31 March

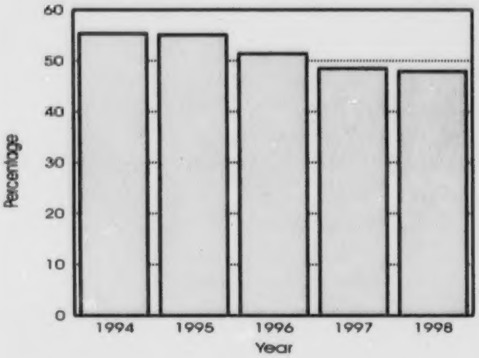


The Province's ability to service its debt relates primarily to both its economy and the magnitude of its debt. Debt as a percentage of gross domestic product (GDP) provides an excellent measure of Government's debt position relative to the Province's economic base. This ratio will increase, and become less favourable, if the total debt grows faster than the provincial GDP. A rise in debt to GDP ratio means that either the burden of the debt on taxpayers is becoming more onerous or that a larger proportion of each tax dollar must be allocated to servicing the debt rather than being spent on Government programs.

Figure 5 shows that Consolidated Revenue Fund debenture and other debt as a percentage of provincial GDP has been decreasing since 1994.

Figure 5

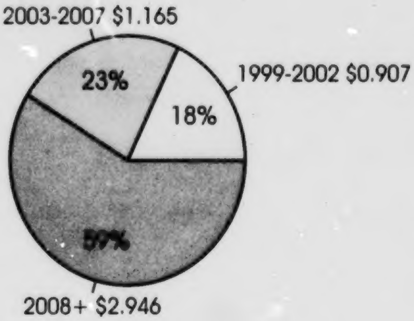
Consolidated Revenue Fund
Debenture and Other Debt As a Percentage of Provincial GDP
Years Ended 31 March



Our review of debenture and other debt as reported in the Province's Consolidated Revenue Fund as at 31 March 1998 indicated that 18% or $0.907 billion of the debt matures within four years, 23% or $1.165 billion of the debt matures between five and nine years and 59% or $2.946 billion of the debt matures in excess of nine years. The composition of this debt maturity profile for the Province is shown in Figure 6.

Figure 6

Consolidated Revenue Fund
Debenture Debt Maturity Profile
31 March 1998
($Billions)



Debt that carries floating interest rates carries a risk with it, the risk that the interest rate on the debt will increase, thereby increasing the debt servicing costs. Debt which has set interest rates may also carry a similar risk. A government which runs a deficit will not accumulate any excess funds to cover such items as debt maturities. In this situation, if debt has relatively short maturity periods, the government will have to borrow additional funds to cover these maturities. If interest rates have increased since the debt was originally acquired, then the interest costs on the new debt will be higher and the debt servicing costs will increase.

Many of the debentures held by the Province have sinking fund requirements. As well, the Province voluntarily maintains sinking funds for Canada Pension Plan and other debentures. Sinking funds are a pool of cash and investments accumulated during the life of the debentures to repay the debt at maturity. The Province pays the sinking fund contributions to the Board of Trustees of the Newfoundland Consolidated Sinking Funds. This is an unincorporated body appointed by the Lieutenant-Governor in Council. The sinking funds of the Province are administered by the Board of Trustees as one fund known as the Newfoundland Government Sinking Fund. Figure 7 is a summary of sinking funds at 31 March 1998 along with the related debenture debt outstanding and the net amount left after reducing the debt by the amount of the sinking funds.

Figure 7

Consolidated Revenue Fund
Debenture and Other Debt and Sinking Funds
31 March 1998
($ 000's)

	Sinking Fund Balance	Debt Outstanding	Balance without Sinking Fund
Total Debt With Statutory Sinking Funds	$503,061	$2,775,070	$2,272,009
Total Debt With Voluntary Sinking Funds	430,118	1,045,538	615,420
Total Debt Without Sinking Funds	-	1,197,711	1,197,711
Total Debt 1998	**$933,179**	**$5,018,319**	[illegible]

Figure 8 shows the debenture and other debt net of sinking funds for each of the past five years.

Figure 8

Consolidated Revenue Fund
Debenture and Other Debt and Sinking Funds
Years Ended 31 March
($ Million's)

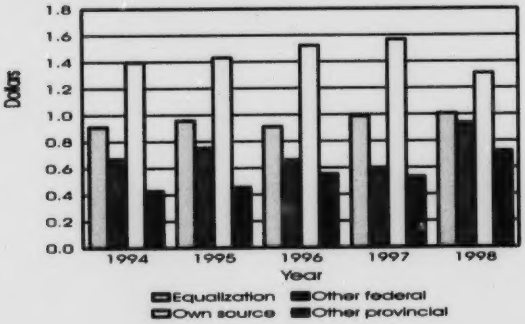
	1994	1995	1996	1997	1998
Debentureand Other Debt	$5,400	$5,646	$5,554	$5,175	$5,018
SinkingFunds	877	898	854	883	933
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

3.7 Information on Government's Revenue

Total revenue for the year ended 31 March 1998 was reported in the Consolidated Summary Financial Statements at $3.993 billion. Figure 1 shows revenue, by source, for the fiscal years 1994 to 1998.

Figure 1

Consolidated Summary Financial Statements
Revenue by Source
Years Ended 31 March
($ Billions)



The Government of Canada represents the most significant source of revenue for Government, totalling $2.019 billion in 1998. These revenues include payments received under federal provincial fiscal arrangements relating to Tax Equalization, cost shared programs, Established Programs Financing grants and other payments. Government of Canada revenue represents approximately 51% of all revenues in 1998 (1997 - 43%).

Taxes amounted to $1.349 billion in 1998. Taxes include Retail Sales Tax, Personal Income Tax, Corporate Income Tax, Gasoline Tax as well as a variety of other taxes. Tax revenues represent approximately 34% of all revenues in 1998 (1997 - 43%).

Aside from the main sources of revenue previously outlined, other sources of revenue exist, totalling $722 million in 1998. These other revenues relate to miscellaneous revenues such as investment income, vehicle drivers' licences, court fees and forfeitures, and the Registry of Deeds. Other revenues have increased from $530 million in 1997 to $625 million in 1998. Other revenues represent approximately 15% of total revenue in 1998 (1997 - 14%).

In addition to the above revenue, the Province also received $348 million in 1997 for Harmonized Sales Tax transitional assistance in respect of anticipated losses in the level of current retail sales tax revenues over the period 1 April 1997 to 31 March 2001. This amount has been deferred and will be recognized as revenue over the periods earned as follows:

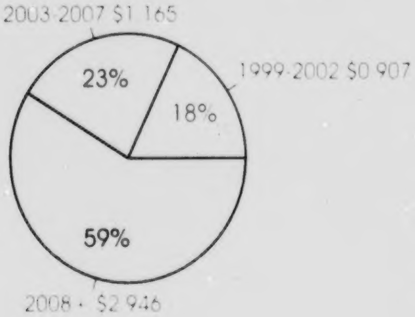
1997-98	$127 million
1998-99	$127 million
1999-00	$63 million
2000-01	$31 million

3.8 Information on Government's Expenditure

Total expenditure in 1998 was reported in the Consolidated Summary Financial Statements at $3.980 billion. Figure 1 shows the total expenditure, by sector, for the fiscal years 1994 to 1998.

Figure 6

Consolidated Revenue Fund
Debenture Debt Maturity Profile
31 March 1998
($Billions)



Debt that carries floating interest rates carries a risk with it, the risk that the interest rate on the debt will increase, thereby increasing the debt servicing costs. Debt which has set interest rates may also carry a similar risk. A government which runs a deficit will not accumulate any excess funds to cover such items as debt maturities. In this situation, if debt has relatively short maturity periods, the government will have to borrow additional funds to cover these maturities. If interest rates have increased since the debt was originally acquired, then the interest costs on the new debt will be higher and the debt servicing costs will increase.

Many of the debentures held by the Province have sinking fund requirements. As well, the Province voluntarily maintains sinking funds for Canada Pension Plan and other debentures. Sinking funds are a pool of cash and investments accumulated during the life of the debentures to repay the debt at maturity. The Province pays the sinking fund contributions to the Board of Trustees of the Newfoundland Consolidated Sinking Funds. This is an unincorporated body appointed by the Lieutenant-Governor in Council. The sinking funds of the Province are administered by the Board of Trustees as one fund known as the Newfoundland Government Sinking Fund. Figure 7 is a summary of sinking funds at 31 March 1998 along with the related debenture debt outstanding and the net amount left after reducing the debt by the amount of the sinking funds.

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Total Debt 1998	**$933,179**	**$5,018,319**	**$4,085,140**

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Debenture and Other Debt and Sinking Funds
Years Ended 31 March
($ Million's)

	1994	1995	1996	1997	1998
Debenture and Other Debt	$5,400	$5,646	$5,554	$5,175	$5,018
Sinking Funds	877	898	854	883	933
Net Debt	**$4,523**	**$4,748**	**$4,700**	**$4,292**	**$4,085**

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Total revenue for the year ended 31 March 1998 was reported in the Consolidated Summary Financial Statements at $3.993 billion. Figure 1 shows revenue, by source, for the fiscal years 1994 to 1998.

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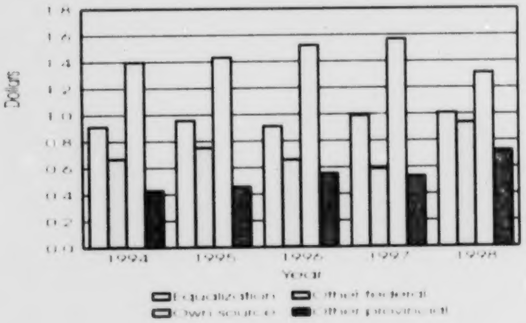

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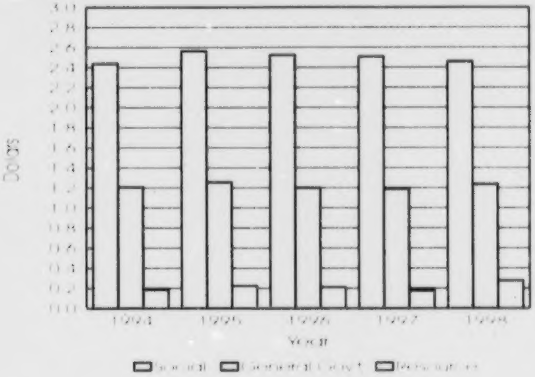
Total expenditure in 1998 was reported in the Consolidated Summary Financial Statements at $3.980 billion. Figure 1 shows the total expenditure, by sector, for the fiscal years 1994 to 1998.

Figure 1

Consolidated Summary Financial Statements Expenditure By Sector Years Ended 31 March ($ Billions)



Social Sector expenditures of $2.466 billion include the expenditures of the Departments of: Education; Health; Justice; Municipal and Provincial Affairs; Human Resources and Employment; and grants to the Newfoundland and Labrador Housing Corporation.

General Government Sector expenditures of $1.237 billion include expenditures of: Consolidated Fund Services; Executive Council; the Department of Finance; the Department of Government Services and Lands; Legislature; Public Service Commission; and the Department of Works, Services and Transportation.

Resource Sector expenditures of $277 million include the expenditures of the Departments of: Development and Rural Renewal; Environment and Labour; Fisheries and Aquaculture; Forest Resources and Agrifoods; Industry, Trade and Technology; Mines and Energy; and Tourism, Culture and Recreation.

The Statement of Revenue and Expenditure of the Consolidated Revenue Fund financial statements for the year ended 31 March 1998 disclosed expenditures of $2.123 billion for grants and subsidies (1997 - $1.754 billion). These payments represent a significant portion of the annual expenditure of the Province and cover a wide range of programs and recipients across many Government departments and Crown agencies. These grants and subsidies are summarized in Figure 2.

Figure 2

Summary of Grants and Subsidies Year Ended 31 March 1998 ($ 000's)

Description	Amount
Health Services	$ 844,733
School Boards	455,200
Labrador Transportation Initiative Fund	349,172
Memorial University of Newfoundland	124,721
Municipalities	120,827
Crown Agencies	44,173
Colleges	41,336
Newfoundland and Labrador Education Investment Corporation	25,000
Other	117,934
Total	**$2,123,096**

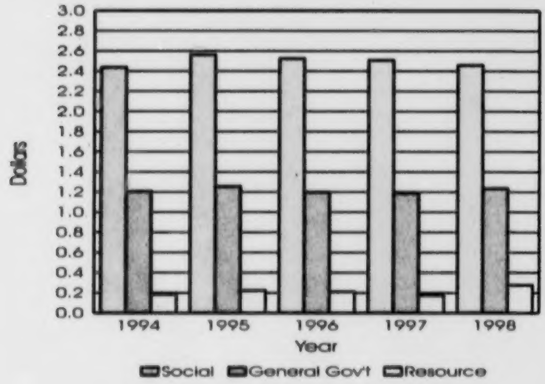
Additional information relating to these grants and subsidies is included in Part 3.2 of our Annual Report to the House of Assembly for the year ended 31 March 1998.

3.9 Information on Government's Deficits

In discussing Government's deficits, it is important to differentiate between the Government's deficit in any particular year and the Government's accumulated deficit. The total surplus for the 1997-98 fiscal year, after giving effect to $129 million (1996-97 - $93 million) of net income of

Figure 1

**Consolidated Summary Financial Statements
Expenditure By Sector
Years Ended 31 March
($ Billions)**



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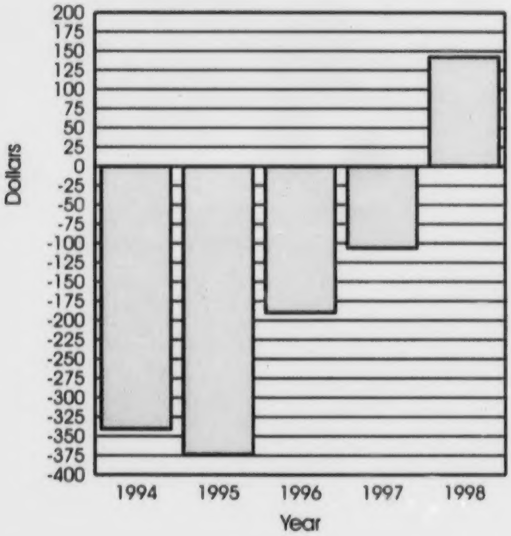
In discussing Government's deficits, it is important to differentiate between the Government's deficit in any particular year and the Government's accumulated deficit. The total surplus for the 1997-98 fiscal year, after giving effect to $129 million (1996-97 - $93 million) of net income of

Government enterprises, was reported in the Consolidated Summary Financial Statements at $142 million (1996-97 - $107 million deficit). The total surplus represents the excess of revenue over expenditure for current and capital accounts. The accumulated deficit as at 31 March 1998 was $7.3 billion (1996-97 - $7.3 billion).

Figure 1 shows the deficits (current and capital) of the Province for the years ended 31 March 1994 to 1997 and the surplus for the year ended 31 March 1998. As the chart indicates, the Province realized a surplus in the current year as opposed to deficits in each of the last four years. A contributing factor in this surplus was the receipt of a one-time payment of $347.6 million from the Federal government in consideration for the Province assuming all responsibility for operation of the marine, freight and passenger services on and to the coast of Labrador.

Figure 1

Consolidated Summary Financial Statements Surplus (Deficit) (Current and Capital) Years Ended 31 March ($ Millions)



CHAPTER
4
OTHER RELATED MATTERS

4.1 Service Organization Report

Government uses NewTel Information Solutions Limited as its service organization for the electronic processing and storage of data, maintaining and updating programs, and generation of reports. The *Canadian Institute of Chartered Accountants (CICA) Handbook* provides guidance to the auditor of an entity in obtaining audit evidence when the entity uses a service organization.

Since we are required to obtain a sufficient understanding of internal control to plan and conduct the audit of the Public Accounts of the Province, we have to determine the amount of reliance that can be placed on the management and accounting systems in operation. We must also consider the nature and extent of the services provided by NewTel Information Solutions Limited including the authority delegated to it and the sufficiency and appropriateness of evidence available from the Province. An important source of this assurance is an opinion on control procedures at the service organization, as outlined in section 5900 of the *CICA Handbook.*

We received a report on control procedures at NewTel Information Solutions Limited in June 1998. It indicated that: control objectives reviewed were sufficient to meet the stated objectives of the system; the control procedures described in the report were suitably designed to provide reasonable, but not absolute assurance that the control objectives were achieved; and that control procedures at the data centre operated effectively from 9 February 1998 to 20 February 1998.

4.2 Year 2000 Compliance

We reported two years ago that Government had established a Financial Management Systems Project Committee to oversee the replacement of its current Financial Management Information System which is not Year 2000 compliant. Government has completed an inventory of both mainframe and microcomputer systems in Government departments that included a preliminary assessment of whether systems are Year 2000 compliant. Departments are responsible to ensure that their systems are updated or replaced to resolve the problem. A Year 2000 coordinator has been appointed to facilitate departmental efforts and departments are required to report regularly to Treasury Board Secretariat regarding the status of progress made.

Our review has indicated that Government is progressing in a satisfactory manner to ensure their mission critical systems are year 2000 compliant.

Recommendation

Government should continue to closely monitor departmental progress in resolving potential Year 2000 problems.

PROVINCE OF NEWFOUNDLAND

REPORT OF THE AUDITOR GENERAL

TO THE HOUSE OF ASSEMBLY

ON REVIEWS OF

DEPARTMENTS AND CROWN AGENCIES

for the

YEAR ENDED

31 MARCH 1998

PRINTED UNDER THE AUTHORITY OF THE HOUSE OF ASSEMBLY
ST. JOHN'S, NEWFOUNDLAND

PROVINCE OF NEWFOUNDLAND

Office of the Auditor General

15 December 1998

The Honourable Lloyd Snow, M.H.A.
Speaker
House of Assembly

Dear Sir:

In compliance with the *Auditor General Act*, I have the honour to submit herewith, for transmission to the House of Assembly, my Report on Reviews of Departments and Crown Agencies for the year ended 31 March 1998.

Respectfully submitted,

Elizabeth Marshall

ELIZABETH MARSHALL, C.A.
Auditor General

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1
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CHAPTER
1
Auditor General's Overview

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1.1 Introduction

This Report has been prepared in compliance with the requirements of section 12 of the *Auditor General Act*. Section 12 requires that this Report outline significant matters noted during the course of examining the accounts of the Province, agencies of the Crown and other entities which, in the opinion of the Auditor General, should be brought to the attention of the House of Assembly.

In accordance with this provision of the Act, this Report contains those instances that have been observed in the course of the audits and additional examinations of departments, agencies of the Crown and other entities, that are considered to be significant. An examination of each of these matters was performed in accordance with generally accepted auditing standards and, accordingly, included such tests and other procedures considered necessary in the circumstances. The instances reported should not be used as a basis for drawing conclusions as to compliance or non-compliance with respect to matters not reported.

Comments on the audit of the financial statements of the Province are contained in a separate report entitled *Report of the Auditor General to the House of Assembly on the Audit of the Financial Statements of the Province for the Year Ended 31 March 1998*. That report is also submitted to the Speaker of the House of Assembly to be tabled before the House.

1.2 Format of the Report

This Report contains five chapters and four appendices. A brief description of the contents of each follows.

Chapter 1 Auditor General's Overview

This chapter provides an introduction to the Report and summarizes significant matters which are presented in more detail in other parts of this Report.

Chapter 2 Comments on Public Sector Accountability

This chapter contains comments and a recommendation relating to the systems of accountability within the public sector.

Chapter 3 Comments on Audits and Additional Examinations

The comments in this chapter pertain to the audit observations and recommendations resulting from audits of specific departments and agencies of the Crown. The departmental audits are listed in Appendix I while the financial statement audits and additional examinations of agencies of the Crown are listed in Appendix II.

Chapter 4 Update on Prior Years' Report Items

This chapter provides an update on action taken with respect to recommendations made in our 1996 and prior Reports.

Chapter 5 General Matters and Work of the Office of the Auditor General

This chapter addresses a number of general matters relating to the operations of the Office of the Auditor General including any special reports issued during the year and comments relating to the professional activities of the Office.

1.3 Highlights

The following is a summary of the more significant matters dealt with in this Report.

1. Comments on Government's Financial Statements

This year, for the first time, Government has included all of its entities, with the exception of Memorial University of Newfoundland and the Workplace Health, Safety and Compensation Commission, in its **Consolidated Summary Financial Statements**.

The **Consolidated Summary Financial Statements** are published as Volume I of the Public Accounts and provide the most complete information available on the operating results and financial position of the Province of Newfoundland. I do note, however, that the usefulness of Government's **Consolidated Summary Financial Statements** would be enhanced if Government prepared estimates on a consolidated basis. The consolidated estimates would include the budgets, prepared on the same basis as the financial statements, for all entities included in the **Consolidated Summary Financial Statements**.

Government also prepares and publishes the financial statements of the Consolidated Revenue Fund in Volumes II and III to the Public Accounts for comparison with the annual Estimates and Budget of the Government. However, to understand and assess the Government's use of its financial resources and the financial position and operating results of the Province, readers should refer to the **Consolidated Summary Financial Statements**.

2. Pension Plans

Since I have been Auditor General, I have been recommending that Government should develop a comprehensive plan to address the unfunded pension liabilities of the public sector pension plans which as at 31 March 1998 totalled $3.134 billion.

I am pleased to report that, in July 1997, Government implemented a plan to address the unfunded liability of the Public Service Pension Plan. I commend the Government for taking this action. In the case of the Teachers' Pension Plan, Government recently negotiated a new collective agreement with the Newfoundland and Labrador Teachers' Association which included provisions to address the unfunded liability of the Teachers' Pension Plan.

While these are positive steps, these actions will not fully address the unfunded liabilities of Government's Pension Plans but will postpone the date on which the Plans are projected to run out of assets. Additional information on Government's Pension Plans is included in Chapter 3.3 of my *Report on the Audit of the Financial Statements of the Province*. No actions have been taken by Government to address the unfunded liabilities of the Uniformed Services Pension Plan and the Members of the House of Assembly Pension Plan which as at 31 March 1998 were estimated at $177.4 million and $40.7 million respectively.

3. Health Care Boards

During 1998, I continued my review of the Province's Regional Health Care Boards. Of the $3.4 billion in government expenditures in 1997-98 these eight boards received $627 million or 18.4% of Government expenditures. In addition, the four community health boards received $61 million.

Since the restructuring of hospital boards in 1994, I have reviewed three hospital boards. My review of the Western Memorial Hospital Corporation in 1996 identified a number of significant problems. Since then, the Board of the Corporation and Government have been working to resolve these issues. I intend to carry out a follow up review of the Corporation in 1999.

My review of the Health Care Corporation of St. John's in 1997 was carried out at the request of the Public Accounts Committee. That review identified several issues including concerns about the financing of the planned restructuring of health care services in the St. John's area. This Report was discussed by the Public Accounts Committee in public hearings on 23 and 24 November 1998.

This year I undertook a review of the Labrador Health Services Board. This review identified several serious problems. The most significant issue centred around the deteriorating financial position of the Corporation. My second concern related to the lack of adequate financial information which, had it been available, would have alerted the Board to this situation earlier. In addition, our review of a sample of payments made by the Corporation identified three travel payments of approximately $1,000 each which were submitted for reimbursement to both the Labrador Health Services Board and a second health care board. As a result, the employee to whom the travel related, claimed the same travel expenses twice on three separate occasions. This matter was referred to Cabinet as required under the *Auditor General Act*, and has since been referred to the Department of Justice.

In addition to carrying out reviews of the individual hospital boards, I also monitor their financial position on an on-going basis. These hospital boards, not unlike those in other parts of the country, are struggling with deficits. In 1997-98 Government provided additional funding of $20 million to the eight hospital boards along with an additional $10 million in 1998-99.

My review this year indicated that, while the financial position of some of the eight hospital boards has improved, the financial position of most of the boards has deteriorated since 1997. Section 3.17 of my Report provides information on the financial position and operating results of the eight health care boards.

4. School Boards

During the past year, we reviewed four of the ten new school boards to ensure that the assets and liabilities of the former boards were properly transferred to the new boards.

All of the school boards have spent significant amounts of money on capital assets such as furniture, electronic equipment and computers in recent years. None of the school boards reviewed maintain a record of these assets and therefore it is not possible to determine whether the assets of the old boards were actually transferred to the new boards. I raised this issue when I previously audited the former school boards and the problem remains unchanged. However, these assets cost significant amounts of money and many are moveable, and therefore are susceptible to loss or theft. Without proper records, it is not possible to control these assets, and ensure that the school boards still have all of these assets in their possession.

I have also previously discussed the lack of control over ancillary and trust funds of schools and school boards. Most, if not all, schools and school boards have various types of funds established through canteen sales, funding raising events, donations, etc. However, there are no departmental or school board policies prescribing how these funds are to be controlled and whether they should be audited. Some of these funds include hundreds of thousands of dollars.

In addition, most new school boards, similar to the former boards, continue to fund various types of dinners and socials and purchase various types of gifts and liquor. The amount spent varies from Board to Board. These expenditures are not provided for under the *Schools Act* or Government policy. I strongly urge the Department of Education to formulate a policy on these discretionary expenditures.

5. Newfoundland Farm Products Corporation

On 17 June 1997, Newfoundland Farm Products Corporation entered into two agreements which provided for the sale of its chicken processing facility in St. John's to Integrated Poultry Limited, effective 4 October 1997. However, from 17 June 1997 to 4 October 1997, Newfoundland Farm Products Corporation was jointly managed by that Corporation and Integrated Poultry Limited in accordance with a Joint Management Agreement signed by both parties.

Integrated Poultry Limited, the new owners of the chicken processing facility, has received significant financial support from Government including direct funding of $8.5 million and loan guarantees totalling $11 million. In addition, from 1 April 1997 to 4 October 1997, which was the date of the sale, Government paid operating subsidies of $3.4 million to Newfoundland Farm Products Corporation, production subsidies of $800,000 and termination benefits of $3.8 million to former employees of Newfoundland Farm Products Corporation. Given Government's significant financial support to Integrated Poultry Limited, IPL Processing Limited, and Newfoundland Farm Products Corporation, the Share Purchase Agreement requires Integrated Poultry Limited and IPL Processing Limited to provide the Department of Finance with certain financial information, including audited financial statements, within specified timeframes. This information is necessary so Government can monitor the financial activities of the two corporations and assess their financial position and operating results on a current basis, given Government's significant financial support.

The required information was not on file at the Department of Finance and as a result, Government does not have the financial information it should have to monitor the financial position of Integrated Poultry Limited. Given the extent of Government's financial support to these companies and the contractual obligation of Integrated Poultry Limited to provide this information, failure to obtain the necessary financial information is a very serious concern.

6. Special Warrants

Government receives its authority to spend money from the members of the House of Assembly when Government's budget is approved. However, Government can give itself authority to spend money without the prior approval of the House of Assembly in certain situations where the necessity is considered urgent, by issuing a "Special Warrant". Any special warrants issued by the Government must be tabled in the House of Assembly and within a specified period of time.

Of the $75.7 million issued in special warrants for 1996-97, all were issued during the last month of that fiscal year. In addition, $36.9 million of the $75.7 million were issued although, in my opinion, there was not an urgent requirement for the funding.

Of the $88.6 million in special warrants issued in 1997-98, $30.9 million was issued although it appears there was not an urgent requirement for the funding.

The issuance of special warrants remains a concern since these warrants authorize expenditures that affect the surplus or deficit which is reported in the financial statements of the Consolidated Revenue Fund.

1.4 Acknowledgments

I express my appreciation to the officials of Government departments, agencies of the Crown and other entities for the cooperation and assistance provided to my staff during the performance of our work.

I acknowledge the cooperation and assistance provided to my Office during the year by the officials of the Treasury Board Secretariat.

I also extend my appreciation to my staff for the thorough and professional manner in which they have carried out their responsibilities.

CHAPTER
2
COMMENTS ON PUBLIC SECTOR ACCOUNTABILITY

CHAPTER
2
Comments on Public Sector Accountability

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Framework of Accountability

[illegible]

Full accountability requires that Government, its departments and agencies of the Crown, and Memorial University be held accountable for their use of public money and the delivery of their programs. In addition to providing annual audited financial statements, full accountability requires that government and its entities be held accountable for the performance of its specific programs compared to their approved objectives.

In my previous Reports to the House of Assembly, I expressed concern over the lack of information being provided to the House of Assembly on Crown agencies which are funded primarily by the public purse. The House of Assembly, as part of the budgetary process, approves funding for these agencies and should receive information on how this funding was spent and what this funding has achieved.

I am again expressing concern over the lack of information being provided to the House of assembly. While considerable attention is given to the Government's budget, there is a lack of emphasis on receiving and reviewing information on how agencies actually spend the monies which were approved during the budget process. Figure 1 provides a summary of the 1997 annual reports tabled in the House of Assembly for the Crown agencies.

Figure 1

Annual Reports and Financial Statements
By Sector
Tabled in the House of Assembly
1997 Year End

Sector	Number of Entities	Government Funding Paid in 1996-97 ($ Millions)	1997 Annual Reports Tabled
Health Care Boards	20	$605	0
School Boards and Related Entities	39	479	0
Memorial University of Newfoundland	1	134	0
Community Health Boards	4	44	0
Colleges	5	47	0
Other Crown Agencies Receiving Government Operating Grants	23	203	4
Total of Crown Agencies Receiving Government Operating Grants	**92**	**$1,512**	**4**
Other Crown Agencies Not Receiving Government Operating Grants	32	0	2
Total	**124**	**$1,512**	**6**

Framework of Accountability

Introduction

Full accountability requires that Government, its departments and agencies of the Crown, and Memorial University be held accountable for their use of public money and the delivery of their programs. In addition to providing annual audited financial statements, full accountability requires that government and its entities be held accountable for the performance of its specific programs compared to their approved objectives.

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Colleges	5	47	0
Other Crown Agencies Receiving Government Operating Grants	23	203	4
Total of Crown Agencies Receiving Government Operating Grants	92	$1,512	4
Other Crown Agencies Not Receiving Government Operating Grants	32	0	2
Total	124	[illegible]	[illegible]

Of the 92 entities receiving government operating grants of $1.512 billion in 1996-97, only 4 entities receiving $163 million, had their reports tabled in the House of Assembly. In summary, the House of Assembly received reports on entities which had received $163 million of total funding of $1.512 billion. There were no reports tabled in the House of Assembly which related to the remaining $1.349 billion.

Similarly, of the 85 entities receiving government operating grants in 1995-96, only 4 entities, receiving $158 million, had their reports tabled in the House of Assembly. In summary, the House of Assembly received reports on entities which had received $158 million of total funding of $1.553 billion. There were no reports tabled in the House of Assembly which related to the remaining $1.395 billion.

Most of the annual reports which are tabled in the House of Assembly do not provide adequate accountability information. Most provide general information on the entity and statistical information on its operations. The reports do not provide information on the objectives of the entity or what was actually achieved during the year.

In some cases, only the audited financial statements of the entity are tabled in the House of Assembly. While financial statements present the financial position and results of operations of the entity for the period covered by the statements they do not provide information relating to an entity's performance in relation to its original objectives. Therefore, financial statements are only one part of a system of accountability.

In my previous Reports to the House of Assembly, I recommended that Government develop and the Legislature enact a framework of accountability for all public sector entities in the Province, including Government departments, agencies of the Crown and Memorial University of Newfoundland. This legislative framework would define the process by which public sector entities would be held accountable to Government and the House of Assembly.

Accountability of Government Departments

In June 1997, the Minister of Finance and President of Treasury Board was directed, by Cabinet, to proceed with the implementation of a new authority and accountability framework for government departments. This accountability framework will include a process of annual business plans. The initiative is aimed at creating an improved framework to make the public service more efficient, effective and responsive to the goals and objectives of Government. In the Fall of 1997, for the first time, departments were required to submit a departmental plan which addressed the strategic direction of the department.

In October 1998, Cabinet Secretariat issued *Guidelines for Departmental Planning 1999-2000 to 2001-2002* to assist departments in planning. As part of this planning process, departments will be required to set out performance targets and measure results against these targets. In future, departments will be required to prepare an annual progress report outlining progress during the fiscal year. The progress report for the 1998-99 year is to be completed by 31 May 1999 and will serve as an appendix to the 2000-01 plan.

Accountability of Crown Agencies

During 1997, Government established the Public Service Reform Initiative which focuses on public administration and organizational and structural issues which impact on how Government operates. A concept paper was prepared outlining an approach to the development of an authority and accountability framework for agencies, boards and commissions. This concept paper will be used to commence a broader discussion on the issue of establishing an improved authority and accountability framework for these entities.

Recommendation

While Government has commenced implementation of an accountability framework for Government departments, there has been no framework established for Crown Agencies. I again encourage Government to implement a framework to hold Crown Agencies accountable to Government and the House of Assembly.

CHAPTER
3
COMMENTS ON AUDITS AND ADDITIONAL EXAMINATIONS

CHAPTER
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Comments on Audits and Additional Examinations

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3.1 Monitoring Agencies of the Crown

Introduction

As at 31 March 1998 there were approximately 156 Crown agencies in the Province. Of these, 85 were required to prepare annual financial statements while 71 were considered non-financial and did not prepare financial statements. Any expenditures related to the operation of these 71 entities are included with those of the government department responsible for the entity and are audited annually as part of our audit of the public accounts of the Province.

Of the 85 entities required to prepare annual financial statements, 29 were audited by our Office while the remaining 56 were audited by private sector auditors.

Most of these entities do not have any requirement to report to the House of Assembly on the discharge of their responsibilities. As a result, a major role of this Office is to monitor these entities in order to provide some accountability to the House of Assembly. Section 14 of the *Auditor General Act* requires all private sector auditing firms to submit to our Office a copy of the audited financial statements and any management letters for all Crown agencies for whom they audit. These financial statements and management letters along with our Office's audits of Crown agencies provide the basis for our monitoring of all Crown agencies. The results of our monitoring activities are as follows.

Compliance with Section 14

Section 14 of the *Auditor General Act* requires the auditor of an agency of the Crown or a Crown controlled corporation to deliver to the Auditor General, after completion of the audit, a copy of the auditor's report, audited financial statements and recommendations to management. As at 11 December 1998, the required information had been received from the private sector auditors for 38 of the 56 entities. Figure 1 provides details of the information received.

Figure 1

Monitoring Agencies of the Crown
Crown Agencies Audited by Private Sector Auditors
Information for Years Ended
1 April 1997 to 31 March 1998

Information	Health Care	Education	Other	Total
Audited financial statements received	15	13	10	38
Audited financial statements not received	5	2	11	18
Total	20	15	21	56

The 18 agencies noted in Figure 1 include the following:

- Central Regional Health and Community Services Board
- Grenfell Regional Health Services Board
- Health Labrador Corporation
- St. John's Nursing Home Board
- Western Regional Health and Community Services Board
- Newfoundland and Labrador School Board Association
- The College of the North Atlantic
- Marystown Shipyard Limited
- Multi-Materials Stewardship Board
- Municipal Assessment Agency Inc.
- Newco IV Corporation
- Newfoundland Farm Products
- Newfoundland Liquor Corporation

- Newfoundland Ocean Enterprises Limited
- Professional Fish Harvesters Certification Board
- Vinland Industries (A Limited Partnership)
- Vinland Industries Limited
- Workplace Health, Safety and Compensation Commission

We reported last year and report again this year that information is not being received from the private sector auditors on a timely basis. On average, audits are completed and the auditors' reports signed within three months after year end. However, the financial statements are not sent to our Office until another four months after the audit report date, and in most cases, only after telephone follow-up or written correspondence from our Office.

For the years ended between 1 April 1997 and 30 April 1998, our Office was responsible for auditing the financial statements for 29 Crown entities. As at 11 December 1998, the audits of 4 of the 29 entities had not been completed for the year ended 31 March 1998. These included:

Department of Development and Rural Renewal

- Enterprise Newfoundland and Labrador Corporation
- Farm Development Loan Board
- Fisheries Loan Board of Newfoundland

Department of Justice

- Office of the High Sheriff

As indicated, three of the four entities are the responsibility of the Department of Development and Rural Renewal. We note that the Department did not have timely financial statements prepared for us to audit for these three entities last year either. In addition to the reduced accountability by not having financial statements prepared, the Department is not providing the financial information necessary for Government to prepare the most accurate and complete financial statements for inclusion in the Public Accounts.

The Office of the High Sheriff has implemented a new accounting system and is expected to have the 31 March 1998 financial statements ready for audit by January 1999. It is expected that, commencing next year, the Office of the High Sheriff will have its financial statements prepared in time for audit.

Monitoring of Financial Information

In addition to the monitoring of all Crown entities, we also performed an analytical review of the audited financial statements which were available to us. In order to facilitate useful comparisons and analysis of data, a number of sectors were established for grouping similar entities. These sectors and financial information of the various Crown agencies are presented in Figure 2 and Figure 3. These figures show 77 of the 85 entities required to prepare financial statements and do not include financial information on either the Municipal Assessment Agency Inc., or the seven Crown agency subsidiaries that have their financial statements consolidated with their parent Crown agency.

3.1 Monitoring Agencies of the Crown

Figure 2

Monitoring of Crown Agencies
Financial Position
Years Ended 1 April 1997 to 30 April 1998
($000's)

Sector	Number of Entities	Current Assets	Long-Term Assets	Current Liabilities	Long-Term Liabilities	Equity
Primary, Elementary & Secondary Education	13	$ 41,451	$ 627,066	$ 12,985	$ 17,505	$ 638,027
Colleges & Universities	2	40,772	148,528	137,633	16,116	35,551
Hospitals & Nursing Homes	16	33,377	232,913	111,210	184,191	(29,111)
Community Health Boards	4	8,332	2,067	5,601	6,719	(1,921)
Government Enterprises	11	105,126	2,431,571	444,427	1,537,188	555,082
Financial Entities	7	132,836	1,290,964	49,562	382,133	992,105
Insurance Entities	4	24,607	240,310	6,200	338,432	(79,715)
Judicial Entities	4	20,699	17,797	16,739	367	21,390
Pension Plans	2	19,736	1,911,253	5,685	-	1,925,304
Other Entities	14	338,542	425,285	20,965	348,459	394,403
Total Crown Agencies	77	$ 765,478	$7,327,754	$ 811,007	$2,831,110	$4,451,115

Figure 3

Monitoring of Crown Agencies
Operating Results
Years Ended 1 April 1997 to 30 April 1998
($000's)

Sector	Number of Entities	Revenues	Expenditures	Surplus (Deficit)	Provincial Funding
Primary, Elementary & Secondary Education	13	$ 499,911	$ 502,085	$ (2,174)	$ 488,008
Colleges & Universities	2	281,607	287,529	(5,922)	160,861
Hospitals & Nursing Homes	16	817,220	841,005	(23,785)	741,426
Community Health Boards	4	59,941	58,173	1,768	59,495
Government Enterprises	11	490,233	386,160	104,073	4,835
Financial Entities	7	136,245	55,253	80,992	155
Insurance Entities	4	127,046	92,494	34,552	131
Judicial Entities	4	30,723	31,244	(521)	5,243
Pension Plans	2	474,561	239,376	235,185	-
Other Entities	14	126,673	153,314	(26,641)	15,479
Total Crown Agencies	77	$ 3,044,160	$ 2,646,633	$ 397,527	$ 1,475,633

3.1 Monitoring Agencies of the Crown

During our compilation and analysis of the above financial data, the following issues were highlighted:

- Of the 77 (1997 - 107) Crown entities analysed, 15 (1997 - 21) entities reported a total bank indebtedness of $119.8 million (1997 - $97.8 million).

- The various hospitals, nursing homes and community health boards have different financial reporting formats and therefore revenue and expenditure classifications were inconsistent for analysis purposes. For example, one community health board reported its expenditures by object (e.g., salaries and supplies), while another board reported its expenditures by department (e.g., administration and support services). The school boards, on the other hand, operated under one set of financial reporting policies and therefore comparisons amongst them were possible.

- Financial information from prior years had to be used for a number of entities because the current audited financial statements had not been submitted to our Office or obtainable from other sources. These entities were

    - Newfoundland and Labrador School Boards Association
    - The College of the North Atlantic
    - Western Regional Health and Community Services Board
    - Workplace Health, Safety and Compensation Commission

- Financial information for 31 March 1997 had to be used for four entities due to the lateness of receiving draft financial statements for audit by our Office. These entities were Enterprise Newfoundland and Labrador Corporation, the Farm Development Loan Board, the Fisheries Loan Board of Newfoundland and the Office of the High Sheriff.

Monitoring Management Letters

Section 14 of the *Auditor General Act*, requires that, management letters prepared by private sector auditors, be submitted to our Office. Of the 56 entities audited by private auditing firms, 5 had no management letters issued, 18 had management letters with weaknesses reported, and 33 entities still had their management letters outstanding as they were not yet finalized. Of the management letters received by our Office from the private sector auditors, many reported control weaknesses such as inadequate segregation of duties, inadequate approval and reconciliation procedures relating to cash, accounts receivable and accounts payable, inadequate controls over inventory and capital assets, and computer software and hardware deficiencies, including the year 2000 issue.

Of the 29 Crown agencies audited by our Office during 1997-98, 5 entities had management letters issued with no control weaknesses reported, 18 had management letters with weaknesses reported, and 6 entities still had their management letters outstanding as they were not yet finalized. Examples of significant weaknesses included non-compliance with governing legislation, inadequate controls over capital assets, inadequate collection efforts on outstanding accounts receivable, and concerns over the year 2000 issue.

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

Introduction

As part of our audit of the financial statements of the Consolidated Revenue Fund (CRF), we perform tests and reviews of the expenditures made by the various departments. Figure 1 outlines expenditures, by category, recorded in the Consolidated Revenue Fund financial statements for the years ended 31 March.

Figure 1

Consolidated Revenue Fund Expenditures
By Category
Years Ended 31 March
($ Millions)

During the past year, we obtained expenditure information from Government's accounting system relating to all expenditures of the Consolidated Revenue Fund. We performed a general review and analysis of amounts paid relating to grants and subsidies, purchased services, professional services, allowances and assistance, and transportation and communications. Details of the expenditures in each of these categories are provided as follows.

Consolidated Revenue Fund Expenditures

Category	1990	1991	1992	1993	1994	1995	1996	1997	1998
Salaries And Benefits	$ 396	$ 398	$ 401	$ 407	$ 334	$ 361	$ 347	$ 357	$ 359
Transportation and Communication	**37**	**35**	**34**	**33**	**30**	**33**	**33**	**32**	**32**
Supplies	64	62	58	57	49	51	48	48	43
Professional Services	**76**	**83**	**85**	**101**	**90**	**64**	**57**	**49**	**52**
Purchased Services	**179**	**163**	**152**	**188**	**172**	**183**	**182**	**146**	**169**
Property and Furnishings	73	71	79	33	24	43	31	19	23
Loans and Advances	65	62	35	0	0	0	7	0	0
Allowances and Assistance	**268**	**253**	**282**	**318**	**345**	**372**	**382**	**403**	**385**
Grants and Subsidies	**1,492**	**1,705**	**1,770**	**1,801**	**1,744**	**1,770**	**1,780**	**1,754**	**2,123**
Debt Expenses	456	482	488	541	800	904	720	719	766
Information Technology	0	0	0	0	0	27	19	20	27
Bad Debts	0	0	0	89	33	33	26	80	28
Total	**$3,106**	**$3,314**	**$3,384**	**$3,568**	**$3,621**	**$3,841**	**$3,632**	**$3,627**	**$4,007**

Source: Consolidated Revenue Fund financial statements

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

Introduction

As part of our audit of the financial statements of the Consolidated Revenue Fund (CRF), we perform tests and reviews of the expenditures made by the various departments. Figure 1 outlines expenditures, by category, recorded in the Consolidated Revenue Fund financial statements for the years ended 31 March.

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By Category
Years Ended 31 March
($ Millions)

Consolidated Revenue Fund Expenditures

Category	1990	1991	1992	1993	1994	1995	1996	1997	1998
Salaries And Benefits	$396	$398	$401	$407	$334	$361	$347	$357	$359
Transportation and Communication	37	35	34	33	30	33	33	32	32
Supplies	64	62	58	57	49	51	48	48	43
Professional Services	76	83	85	101	90	64	57	49	52
Purchased Services	179	163	152	188	172	183	182	146	169
Property and Furnishings	73	71	79	33	24	43	31	19	23
Loans and Advances	65	62	35	0	0	0	7	0	0
Allowances and Assistance	268	253	282	318	345	372	382	403	385
Grants and Subsidies	1,492	1,705	1,770	1,801	1,744	1,770	1,780	1,754	2,123
Debt Expenses	456	482	488	541	800	904	720	719	766
Information Technology	0	0	0	0	0	27	19	20	27
Bad Debts	0	0	0	89	33	33	26	80	28
Total	$3,106	$3,314	$3,384	$3,568	$3,621	$3,841	$3,632	$3,627	$4,007

Source: Consolidated Revenue Fund financial statements

During the past year, we obtained expenditure information from Government's accounting system relating to all expenditures of the Consolidated Revenue Fund. We performed a general review and analysis of amounts paid relating to grants and subsidies, purchased services, professional services, allowances and assistance, and transportation and communications. Details of the expenditures in each of these categories are provided as follows.

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

Grants and Subsidies

Government has established programs which provide grants or subsidies to various agencies of the Crown, private corporations and individuals. These payments are made to health care boards for the operation of the Province's hospitals, to school boards for the operation of the Province's schools and teachers' salaries, to the College of the North Atlantic and Memorial University of Newfoundland, and to certain agencies of the Crown for operational funding. Other grants and subsidies are paid to private corporations and individuals in accordance with Government support programs.

During the year we continued our process of monitoring and reviewing payments made for grants and subsidies. Figure 2 shows, by department, payments made for grants and subsidies for the year ended 31 March 1998 totalling $2.12 billion with comparative figures for the year ended 31 March 1997.

As the figure indicates, for the year ended 31 March 1997, payments for grants and subsidies were approximately $1.75 billion and represented approximately 48% of the total expenditures of the Consolidated Revenue Fund. However, for the year ended 31 March 1998, grants and subsidies amounted to approximately $2.12 billion or approximately 53% of the total expenditures of the Consolidated Revenue Fund.

Figure 2

Grants and Subsidies Expenditures By Department Years Ended 31 March ($ 000's)

Grants and Subsidies Expenditures by Department

Department	1998	1997
Health	$ 863,352	$ 834,401
Education	670,088	675,449
Finance	352,351	11,954
Municipal and Provincial Affairs	120,986	134,047
Works, Services and Transportation	22,896	11,274
Human Resources and Employment	21,770	6,022
Forest Resources and Agrifoods	14,996	7,256
Tourism, Culture and Recreation	14,026	10,201
Industry, Trade and Technology	11,370	9,366
Development and Rural Renewal	10,401	29,617
Newfoundland and Labrador Housing Corporation	6,324	11,600
Fisheries and Aquaculture	6,273	3,709
Justice	5,526	5,680
Mines and Energy	1,441	1,704
Consolidated Fund Services	506	-
Environment and Labour	356	389
Executive Council	298	425
Legislative	87	941
Government Services and Lands	49	55
[illegible]	[illegible]	[illegible]

Source: Government's Financial Management Information System

F2

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

We also summarized the payments of grants and subsidies by the type of entity receiving the payment for the year ended 31 March 1998 with comparative figures for the year ended 31 March 1997. The results of this summary are outlined in Figure 3.

Figure 3

Grants and Subsidies Expenditures By Type of Entity Years Ended 31 March ($ 000's)

Types of Entities Receiving Grants and Subsidies		
Type of Entity	1998	1997
Hospitals and Health Services Boards	$622,372	$618,819
Labrador Transportation Initiatives Fund	349,172	-
Teachers' Payroll	347,371	360,991
Newfoundland Medical Care Commission	161,765	150,439
School Boards and Related Entities	139,647	140,492
Memorial University of Newfoundland	124,721	134,336
Municipalities	120,827	134,047
Community Health Boards	60,596	44,061
Provincial College	40,116	46,603
Economic Renewal, Labour Market and Industry Support	36,093	26,592
Newfoundland and Labrador Education Investment Corporation	25,000	-
Ferry Operations and Transportation Grants	23,375	11,881
Newfoundland Farm Products Corporation	13,158	4,826
Labrador Agreement and Native Peoples Support	8,576	10,595

Figure 3 (cont'd)

Types of Entities Receiving Grants and Subsidies		
Type of Entity	1998	1997
Educational Agencies and Post Secondary Education Support	6,556	8,756
Newfoundland and Labrador Housing Corporation	6,324	11,600
Family and Community Support Services	5,952	8,712
Provincial Information and Libraries Resources Board	5,860	5,355
Newfoundland Legal Aid Commission	5,263	5,393
Marystown Shipyard Subsidy	3,617	3,487
Recreation and Sport	3,219	3,264
Newfoundland Municipal Financing Corporation	3,000	9,000
Agricultural Development	2,199	1,233
The John Cabot (500th) Anniversary Celebrations	3,186	2,975
Culture and Heritage	1,459	1,163
Canada-Newfoundland Offshore Petroleum Board	1,334	1,556
C.A. Pippy Park Commission	872	800
Newfoundland Industrial Development Corporation	-	3,000
Other Miscellaneous Grants	1,466	4,114
[illegible]	[illegible]	[illegible]

Source: Government's Financial Management Information System

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

Grants and Subsidies

Government has established programs which provide grants or subsidies to various agencies of the Crown, private corporations and individuals. These payments are made to health care boards for the operation of the Province's hospitals, to school boards for the operation of the Province's schools and teachers' salaries, to the College of the North Atlantic and Memorial University of Newfoundland, and to certain agencies of the Crown for operational funding. Other grants and subsidies are paid to private corporations and individuals in accordance with Government support programs.

During the year we continued our process of monitoring and reviewing payments made for grants and subsidies. Figure 2 shows, by department, payments made for grants and subsidies for the year ended 31 March 1998 totalling $2.12 billion with comparative figures for the year ended 31 March 1997.

As the figure indicates, for the year ended 31 March 1997, payments for grants and subsidies were approximately $1.75 billion and represented approximately 48% of the total expenditures of the Consolidated Revenue Fund. However, for the year ended 31 March 1998, grants and subsidies amounted to approximately $2.12 billion or approximately 53% of the total expenditures of the Consolidated Revenue Fund.

Figure 2

Grants and Subsidies Expenditures By Department Years Ended 31 March ($ 000's)

Grants and Subsidies Expenditures by Department		
Department	**1998**	**1997**
Health	$ 863,352	$ 834,401
Education	670,088	675,449
Finance	352,351	11,954
Municipal and Provincial Affairs	120,986	134,047
Works, Services and Transportation	22,896	11,274
Human Resources and Employment	21,770	6,022
Forest Resources and Agrifoods	14,996	7,256
Tourism, Culture and Recreation	14,026	10,201
Industry, Trade and Technology	11,370	9,366
Development and Rural Renewal	10,401	29,617
Newfoundland and Labrador Housing Corporation	6,324	11,600
Fisheries and Aquaculture	6,273	3,709
Justice	5,526	5,680
Mines and Energy	1,441	1,704
Consolidated Fund Services	506	-
Environment and Labour	356	389
Executive Council	298	425
Legislative	87	941
Government Services and Lands	49	55
Total	**$2,123,096**	**$1,754,090**

Source: Government's Financial Management Information System

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

We also summarized the payments of grants and subsidies by the type of entity receiving the payment for the year ended 31 March 1998 with comparative figures for the year ended 31 March 1997. The results of this summary are outlined in Figure 3.

Figure 3

Grants and Subsidies Expenditures
By Type of Entity
Years Ended 31 March
($000's)

Types of Entities Receiving Grants and Subsidies		
Type of Entity	1998	1997
Hospitals and Health Services Boards	$622,372	$618,819
Labrador Transportation Initiatives Fund	349,172	
Teachers' Payroll	347,371	360,991
Newfoundland Medical Care Commission	161,765	150,439
School Boards and Related Entities	139,647	140,492
Memorial University of Newfoundland	124,721	134,336
Municipalities	120,827	134,047
Community Health Boards	60,596	44,061
Provincial College	40,116	46,603
Economic Renewal, Labour Market and Industry Support	36,093	26,592
Newfoundland and Labrador Education Investment Corporation	25,000	
Ferry Operations and Transportation Grants	23,375	11,881
Newfoundland Farm Products Corporation	13,158	4,826
Labrador Agreement and Native Peoples Support	8,576	10,595
Educational, Vocational and Post Secondary Education Support	6,550	8,750
Newfoundland and Labrador Housing Corporation	6,424	11,900
Family and Community Support Services	5,982	8,712
Provincial Information and Library Resources Board	5,800	5,358
Newfoundland Legal Aid Commission	5,263	5,393
Marystown Shipyard Subsidy	3,617	3,287
Recreation and Sport	3,239	3,264
Newfoundland Municipal Financing Corporation	3,000	4,000
Aquaculture Development	2,190	1,233
The John Cabot 500th Anniversary Celebrations	2,186	2,975
Culture and Heritage	1,459	1,163
Canada-Newfoundland Offshore Petroleum Board	1,334	1,886
C.A. Pippy Park Commission	872	810
Newfoundland Industrial Development Corporation		5,000
Other Miscellaneous Grants	1,400	4,314
Total	**$2,123,096**	**$1,754,090**

Source: Government's Financial Management Information System

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

Figure 4 provides the names of all entities which received funding in excess of $10 million for the year ended 31 March 1998 with comparative figures for the year ended 31 March 1997.

Figure 4

Grants and Subsidies Expenditures
Payments in Excess of $10 Million
Years Ended 31 March
($ 000's)

Entities Which Received in Excess of $10 Million		
Entity	1998	1997
Labrador Transportation Initiatives Fund	$340,172	$ 0
Health Care Corporation of St. John's	277,881	267,178
Newfoundland Medical Care Commission	161,765	150,439
Memorial University of Newfoundland	124,721	134,336
Western Health Care Corporation	83,649	82,517
Central West Health Care Corporation	52,519	51,309
Central East Health Care Corporation	39,554	39,156
Peninsulas Health Care Corporation	36,439	35,997
Avalon Health Care Corporation	33,558	32,963
College of the North Atlantic	36,184	0
District #10 School Board	28,740	8,254
Newfoundland and Labrador Education Investment Corporation	25,000	0
Grenfell Regional Health Care Corporation	26,512	23,942
Labrador Health Services Board	23,478	23,109
Hoyles Escasoni Complex	18,338	18,558
Community Health - St. John's	17,754	15,166
Eastern Regional Community Health Board	15,771	10,436
Central Newfoundland Regional Community Health Board	13,971	11,974

Figure 4 (cont'd)

Entities Which Received in Excess of $10 Million		
Entity	1998	1997
Avalon West School Board	13,379	3,728
Newfoundland Farm Products Corporation	13,158	4,826
Marine Atlantic Inc.	12,734	0
Western Newfoundland Regional Community Health Board	11,566	6,485
School District #5	11,254	2,966
School District #6	11,207	0
Cabot College	0	18,553
City of St. John's	6,859	12,479
St. John's Roman Catholic School Board	0	11,704
Newfoundland and Labrador Housing Corporation	6,324	11,600
Westviking College of Applied Arts	2,982	11,309
City of Corner Brook	5,026	11,085
Grants paid to over 4,300 entities or individuals (1997 - over 3,200 entities or individuals)	663,631	754,121
Total	**$2,123.096**	**$1,754,090**

Source: Government's Financial Management Information System

Purchased Services

Purchased services include such services as heat and light, general maintenance, printing, vehicle rentals and repairs, advertising, and insurance. As indicated in Figure 1, payments for purchased services totalled $169 million for the year ended 31 March 1998. Figure 5 shows, by department, payments made for purchased services for the year ended 31 March 1998 with comparative figures for the year ended 31 March 1997.

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

Figure 5

**Purchased Services Expenditures
By Department
Years Ended 31 March
($ 000's)**

Purchased Services Expenditures by Department		
Department	**1998**	**1997**
Works, Services and Transportation	$122,158	$ 95,115
Forest Resources and Agrifoods	11,906	9,585
Education	7,037	5,578
Tourism, Culture and Recreation	6,759	7,229
Justice	5,031	4,790
Human Resources and Employment	3,087	4,953
Municipal and Provincial Affairs	3,047	2,747
Government Services and Lands	1,841	2,322
Industry, Trade and Technology	1,781	1,610
Development and Rural Renewal	1,543	2,342
Fisheries and Aquaculture	1,443	1,144
Executive Council	925	823
Legislative	760	324
Environment and Labour	507	702
Mines and Energy	371	722
Public Service Commission	227	307
Finance	213	288
Consolidated Fund Services	201	16
Health	141	5,265
Total	**$169,077**	**$145,862**

Source: Government's Financial Management Information System

We also summarized the payments for purchased services to show all entities which received payments in excess of $1 million for the year ended 31 March 1998 with comparative figures for the year ended 31 March 1997. These entities are listed in Figure 6.

Figure 6

**Purchased Services Expenditures
Payments in Excess of $1 Million
Years Ended 31 March
($ 000's)**

Entities Which Received in Excess of $1 Million		
Entity	1998	1997
Western Construction Co. Ltd	$ 12,366	$ 5,389
S M Construction	11,353	10,950
McNamara Construction Ltd	8,427	2,208
Penney Paving - Mackinsons	6,593	3,780
Newfoundland Power	6,136	6,305
Provincial Paving Ltd	5,910	3,302
J J Contracting Limited	4,477	951
Pennecon Ltd	4,236	5,823
Northland Contracting Inc	3,916	0
Memorial University of Newfoundland	3,790	3,237
Merit Management Inc	2,896	3,365
Trident Construction Limited	2,476	1,560
Target Marketing Inc	2,327	3,113
College of the North Atlantic	2,149	0
Concord Paving Ltd	2,138	1,874
Labrador Construction Company	2,102	1,927
RDN Construction	1,880	77
Municipal Constuction Ltd	1,624	0
Council of Higher Education	1,581	120
Colby Construction Ltd	1,562	701
J&H Marsh & McLennan Limited	1,549	1,655
Receiver General for Canada	1,266	1,079
GlennCorp Ltd	1,252	992
Nova Services Ltd	1,157	1,002

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

Figure 4 provides the names of all entities which received funding in excess of $10 million for the year ended 31 March 1998 with comparative figures for the year ended 31 March 1997.

Figure 4

Grants and Subsidies Expenditures Payments in Excess of $10 Million Years Ended 31 March ($ 000's)

Entities Which Received in Excess of $10 Million		
Entity	1998	1997
Labrador Transportation Initiatives Fund	$349,172	$ 0
Health Care Corporation of St. John's	277,881	267,175
Newfoundland Medical Care Commission	161,765	150,439
Memorial University of Newfoundland	124,721	134,336
Western Health Care Corporation	83,649	82,517
Central West Health Care Corporation	52,519	51,309
Central East Health Care Corporation	39,554	39,159
Peninsulas Health Care Corporation	36,439	35,997
Avalon Health Care Corporation	33,558	32,963
College of the North Atlantic	36,184	0
District #10 School Board	28,740	8,254
Newfoundland and Labrador Education Investment Corporation	25,000	0
Grenfell Regional Health Care Corporation	26,512	23,942
Labrador Health Services Board	23,478	23,109
Hoyles-Escasoni Complex	18,338	18,558
Community Health - St. John's	17,754	15,166
Eastern Regional Community Health Board	15,771	10,436
Central Newfoundland Regional Community Health Board	13,971	11,974
Avalon West School Board	13,379	3,728
Newfoundland Farm Products Corporation	13,158	4,826
Marine Atlantic Inc.	12,734	0
Western Newfoundland Regional Community Health Board	11,566	6,485
School District #5	11,254	2,966
School District #6	11,207	0
Cabot College	0	18,553
City of St. John's	6,859	12,479
St. John's Roman Catholic School Board	0	11,704
Newfoundland and Labrador Housing Corporation	6,324	11,600
Westviking College of Applied Arts	2,952	11,209
City of Corner Brook	5,026	11,085
Grants paid to over 4,300 entities or individuals (1997 - over 3,200 entities or individuals)	663,631	754,121
Total	[illegible]	[illegible]

Source: Government's Financial Management Information System

Purchased Services

Purchased services include such services as heat and light, general maintenance, printing, vehicle rentals and repairs, advertising, and insurance. As indicated in Figure 1, payments for purchased services totalled $169 million for the year ended 31 March 1998. Figure 5 shows, by department, payments made for purchased services for the year ended 31 March 1998 with comparative figures for the year ended 31 March 1997.

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

Figure 5

Purchased Services Expenditures By Department Years Ended 31 March ($ 000's)

Purchased Services Expenditures by Department		
Department	**1998**	**1997**
Works, Services and Transportation	$122,158	$ 95,115
Forest Resources and Agrifoods	11,906	9,585
Education	7,037	5,578
Tourism, Culture and Recreation	6,759	7,229
Justice	5,031	4,790
Human Resources and Employment	3,087	4,953
Municipal and Provincial Affairs	3,047	2,747
Government Services and Lands	1,841	2,322
Industry, Trade and Technology	1,781	1,610
Development and Rural Renewal	1,543	2,342
Fisheries and Aquaculture	1,443	1,144
Executive Council	925	823
Legislative	769	324
Environment and Labour	597	702
Mines and Energy	371	722
Public Service Commission	227	307
Finance	213	288
Consolidated Fund Services	201	16
Health	141	5,265
[illegible]	[illegible]	[illegible]

Source: Government's Financial Management Information System

We also summarized the payments for purchased services to show all entities which received payments in excess of $1 million for the year ended 31 March 1998 with comparative figures for the year ended 31 March 1997. These entities are listed in Figure 6.

Figure 6

Purchased Services Expenditures Payments in Excess of $1 Million Years Ended 31 March ($ 000's)

Entities Which Received in Excess of $1 Million		
Entity	1998	1997
Western Construction Co. Ltd.	$ 12,366	$ 5,389
S M Construction	11,353	10,950
McNamara Construction Ltd.	8,427	2,298
Penney Paving - Mackinsons	6,593	3,789
Newfoundland Power	6,136	6,305
Provincial Paving Ltd.	5,910	3,302
J-1 Contracting Limited	4,477	951
Pennecon Ltd.	4,236	5,823
Northland Contracting Inc.	3,916	0
Memorial University of Newfoundland	3,790	3,237
Merit Management Inc.	2,896	3,365
Trident Construction Limited	2,476	1,560
Target Marketing Inc.	2,327	3,113
College of the North Atlantic	2,149	0
Concord Paving Ltd.	2,138	1,874
Labrador Construction Company	2,102	1,927
RDN Construction	1,880	77
Municipal Constuction Ltd.	1,624	0
Council of Higher Education	1,581	120
Colby Construction Ltd.	1,562	701
J&H Marsh & McLennan Limited	1,549	1,655
Receiver General for Canada	1,266	1,079
Glenn Corp Ltd.	1,252	992
Nova Services Ltd.	1,157	1,002

Figure 6 (cont'd)

Entities Which Received in Excess of $1 Million		
Entity	1998	1997
Barkers Construction Limited	1,079	1,720
Weirs Construction Co Ltd.	1,062	249
H J O'Connell Construction Ltd.	722	2,594
Modern Paving Ltd.	127	2,346
Cabot College of Applied Arts	60	1,739
Coady's Construction and Excavating Ltd.	22	1,595
Emery Construction	27	1,516
Marine Contractors Ltd.	0	1,026
Enterprise Newfoundland and Labrador Corporation	0	1,014
Payments to over 5,900 entities or individuals (1997-over 5,800 entities or individuals)	72,815	72,554
Total	$169,077	$145,862

Source: Government's Financial Management Information System

Professional Services

Professional services generally include the fees and expenses of those engaged in a specialty profession such as accountants, doctors, lawyers, and engineers who provide a service, a report or advice to Government. As indicated in Figure 1, payments for professional services totalled $52 million for the year ended 31 March 1998. Figure 7 shows, by department, payments made for professional services for the year ended 31 March 1998 with comparative figures for the year ended 31 March 1997.

Figure 7

Professional Services Expenditures By Department Years Ended 31 March ($ 000's)

Professional Services Expenditures by Department		
Department	1998	1997
Justice	$36,369	$39,244
Consolidated Fund Services	5,462	706
Works, Services and Transportation	3,306	1,952
Health	1,508	1,558
Environment and Labour	1,044	1,077
Development and Rural Renewal	972	585
Municipal and Provincial Affairs	572	436
Executive Council	453	477
Government Services and Lands	410	293
Human Resources and Employment	406	206
Finance	373	130
Forest Resources and Agrifoods	304	627
Tourism, Culture and Recreation	302	319
Education	292	344
Mines and Energy	256	298
Industry, Trade and Technology	175	708
Fisheries and Aquaculture	161	302
Public Service Commission	87	77
Legislature	21	70
Total	$52,472	$49,409

Source: Government's Financial Management Information System

We also summarized the payments of professional services to show all entities which received payments in excess of $100,000 for the year ended 31 March 1998 with comparative figures for the year ended 31 March 1997. These entities are listed in Figure 8.

Figure 8

Professional Services Expenditures
Entities Paid in Excess of $100,000
Years Ended 31 March
($ 000's)

Entities Which Received in Excess of $100,000		
Entity	1998	1997
Receiver General for Canada (RCMP)	$34,898	$37,527
Bae-Newplan Group Ltd	1,314	148
NewTel Information Solutions Ltd.	883	875
Patterson Palmer Hunt Murphy	736	598
A E Consultants Ltd	434	0
Health Care Corporation of St. John's	280	284
The SGE Group Inc.	215	0
Memorial University of Newfoundland	183	403
Benson Myles	167	151
Newfoundland Design Associates Ltd.	163	307
Andy Rowe Consultants	158	50
French, Browne	146	14
Rose Technology Group Ltd.	145	0
BFL Consultants Limited	144	100
Nova Consultants Inc.	142	123
Martin Whelan Hennebury and Stamp	114	42
Harris & Associates Ltd.	114	66
Jerrett and Associates	19	270
Economic Recovery Commission	0	190
Ernst & Young	51	141
Venture Architects	1	140
KPMG Management Consultants	0	139
Milnor Fenerty	26	128
Bull Arm Site Corporation	53	126
O'Reilly Noseworthy	40	115
Atlantic Provinces' Transportation Commission	0	110
Payments to over 790 entities or individuals (1997 - over 740 entities or individuals)	12,047	7,362
Total	$52,473	$49,409

Source: Government's Financial Management Information System

Allowances and Assistance

Allowances and assistance expenditures include costs relating to such items as allowances for Members of the House of Assembly, social assistance allowances paid to individuals, out of court settlements, and allowances paid on behalf of individuals to organizations. As indicated in Figure 1, payments for allowances and assistance totalled $385 million for the year ended 31 March 1998. Figure 9 shows, by department, payments made for allowances and assistance for the year ended 31 March 1998 with comparative figures for the year ended 31 March 1997.

Figure 9

Allowances and Assistance Expenditures By Department
Years Ended 31 March
($ 000's)

Allowances and Assistance Expenditures by Department		
Department	1998	1997
Human Resources and Employment	$309,256	$314,092
Health and Community Services	55,844	65,400
Education	15,157	6,255
Legislature	4,050	4,127
Justice	427	11,307
Municipal and Provincial Affairs	224	240
Works, Services and Transportation	210	927
Environment and Labour	116	112
Executive Council	32	57
Tourism, Culture and Recreation	30	-
Forest Resources and Agrifoods	15	14
Total	$385,361	$402,531

Source: Government's Financial Management Information System

We also summarized the payments of allowances and assistance to show all entities which received payments in excess of $500,000 for the year ended 31 March 1998 with comparative figures for the year ended 31 March 1997. These entities are listed in Figure 10.

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

Figure 6 (cont'd)

Entities Which Received in Excess of $1 Million		
Entity	1998	1997
Barkers Construction Limited	1,079	1,720
Weirs Construction Co. Ltd.	1,062	240
H.J. O'Connell Construction Ltd.	[illegible]	[illegible]
Modern Paving Ltd.	125	2,346
Cabot College of Applied Arts	90	1,736
Coady's Construction and Excavating Ltd.	27	1,598
[illegible]	25	1,816
Marine Contractors Ltd.	9	1,026
Enterprise Newfoundland and Labrador Corporation	0	1,014
Payments to over 5,900 entities or individuals (1997 over 5,800 entities or individuals)	[illegible]	[illegible]
Total	$169,077	$145,862

Source: Government's Financial Management Information System

Professional Services

Professional services generally include the fees and expenses of those engaged in a specialty profession such as accountants, doctors, lawyers, and engineers who provide a service, a report or advice to Government. As indicated in Figure 1, payments for professional services totalled $52 million for the year ended 31 March 1998. Figure 7 shows, by department, payments made for professional services for the year ended 31 March 1998 with comparative figures for the year ended 31 March 1997.

Figure 7

**Professional Services Expenditures
By Department
Years Ended 31 March
($ 000's)**

Professional Services Expenditures by Department		
Department	1998	1997
Justice	[illegible]	[illegible]
Consolidated Fund Services	[illegible]	[illegible]
Works, Services and Transportation	[illegible]	[illegible]
Health	[illegible]	[illegible]
Environment and Labour	[illegible]	[illegible]
Development and Rural Renewal	[illegible]	[illegible]
Municipal and Provincial Affairs	[illegible]	436
Executive Council	[illegible]	[illegible]
Government Services and Lands	410	291
Human Resources and Employment	406	206
Finance	[illegible]	[illegible]
Forest Resources and Agrifoods	304	[illegible]
Tourism, Culture and Recreation	[illegible]	119
Education	292	144
Mines and Energy	256	246
Industry, Trade and Technology	[illegible]	308
Fisheries and Aquaculture	[illegible]	102
Public Service Commission	87	88
Legislature	21	70
Total	$52,473	$49,409

Source: Government's Financial Management Information System

We also summarized the payments of professional services to show all entities which received payments in excess of $100,000 for the year ended 31 March 1998 with comparative figures for the year ended 31 March 1997. These entities are listed in Figure 8.

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

Figure 8

Professional Services Expenditures Entities Paid in Excess of $100,000 Years Ended 31 March ($000's)

Entities Which Received in Excess of $100,000		
Entity	1998	1997
Receiver General of Canada (RCMP)	[illegible]	[illegible]
Bae-Newplan Group Ltd.	[illegible]	[illegible]
NewTel Information Solutions Ltd.	843	[illegible]
[illegible]	[illegible]	[illegible]
[illegible] Ltd.	[illegible]	
Health Care Corporation of St. John's	[illegible]	[illegible]
The SGE Group Inc.	[illegible]	[illegible]
Memorial University of Newfoundland	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
Newfoundland Design Associates Ltd.	[illegible]	[illegible]
[illegible] Consultants	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible] Ltd.	[illegible]	
BFL Consultants Limited	[illegible]	[illegible]
[illegible] Consultants Inc.	[illegible]	[illegible]
Martin Whalen Hennebury and Stamp	[illegible]	[illegible]
Harris & Associates Ltd.	[illegible]	[illegible]
[illegible] and Associates	[illegible]	[illegible]
Economic Recovery Commission		[illegible]
Ernst & Young	[illegible]	[illegible]
[illegible]		[illegible]
KPMG Management Consultants	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible] Corporation	[illegible]	[illegible]
O'Reilly Noseworthy	[illegible]	[illegible]
Atlantic Provinces' Transportation Commission	[illegible]	[illegible]
Payments to over 790 entities or individuals (1997: over 780 entities or individuals)	[illegible]	[illegible]
Total	**$52,473**	**$49,409**

Source: Government's Financial Management Information System

Allowances and Assistance

Allowances and assistance expenditures include costs relating to such items as allowances for Members of the House of Assembly, social assistance allowances paid to individuals, out of court settlements, and allowances paid on behalf of individuals to organizations. As indicated in Figure 1, payments for allowances and assistance totalled $385 million for the year ended 31 March 1998. Figure 9 shows, by department, payments made for allowances and assistance for the year ended 31 March 1998 with comparative figures for the year ended 31 March 1997.

Figure 9

Allowances and Assistance Expenditures By Department Years Ended 31 March ($000's)

Allowances and Assistance Expenditures by Department		
Department	1998	1997
Human Resources and Employment	$306,296	$314,062
Health and Community Services	55,844	62,400
Education	18,187	16,259
Legislature	4,090	4,127
Justice	427	[illegible]
Municipal and Provincial Affairs	224	230
Works, Services and Transportation	200	327
Environment and Labour	136	132
Executive Council	12	47
Tourism, Culture and Recreation	80	
Forest Resources and Agrifoods	15	14
Total	**$385,361**	**$402,531**

Source: Government's Financial Management Information System

We also summarized the payments of allowances and assistance to show all entities which received payments in excess of $500,000 for the year ended 31 March 1998 with comparative figures for the year ended 31 March 1997. These entities are listed in Figure 10.

Figure 10

Allowances and Assistance Expenditures Entities Paid in Excess of $500,000 Years Ended 31 March ($ 000's)

Allowances and Assistance Entities Which Received in Excess of $500,000		
Entity	1998	1997
Memorial University of Newfoundland	$ 12,558	$ 625
Newfoundland and Labrador Housing Corporation	2,577	952
Health Care Corporation of St. John's	527	2,073
[illegible]	[illegible]	
[illegible]	504	1,546
[illegible]	708	758
[illegible]	732	722
[illegible]	725	902
[illegible]	606	701
[illegible] Group Home	650	502
[illegible] Residence Association	88	528
Bay St. George Youth Assessment	558	500
[illegible] Group Home	516	522
[illegible] Regional Youth	515	501
Mount Pearl Group Home	421	611
[illegible] Society	154	1,592
[illegible] Youth	80	567
Community Health St. John's	2	788
Health Care Developers Inc.	10	1,850
Eastern Regional Community Health Board	10	1,626
Central Newfoundland Regional Community Health Board	11	701
Miscellaneous amounts to over 2,000 entities or individuals (1997 - over 2,650 entities or individuals)	367,947	381,878
Total	$385,361	$402,531

Source: Government's Financial Management Information System

Transportation and Communications

Transportation and communications expenditures include costs relating to such items as postage, freight, ambulance and air services, telecommunication services and travel for ministers, government employees and others. As indicated in Figure 1, payments for transportation and communications totalled $32 million for the year ended 31 March 1998. Figure 11 shows, by department, payments made for transportation and communications for the year ended 31 March 1998 with comparative figures for the year ended 31 March 1997.

Figure 11

Transportation and Communications Expenditures By Department Years Ended 31 March ($ 000's)

Transportation and Communications Expenditures by Department		
Department	1998	1997
Works, Services and Transportation	$ 5,293	$ 4,683
Forest Resources and Agrifoods	4,459	6,965
Human Resources and Employment	3,883	3,201
Justice	3,277	3,156
Government Services and Lands	1,939	1,935
Tourism, Culture and Recreation	1,719	1,866
Education	1,691	1,507
Executive Council	1,282	1,069
Development and Rural Renewal	1,143	1,242
Mines and Energy	1,057	737
Municipal and Provincial Affairs	1,019	1,069
Fisheries and Aquaculture	972	801
Finance	936	1,010
Environment and Labour	895	949
Industry, Trade and Technology	757	964
Legislature	714	539
Health and Community Services	466	398
Consolidated Fund Services	129	5
Public Service Commission	64	83
Total	$31,695	$32,179

Source: Government's Financial Management Information System

We also summarized the payments for transportation and communications to show all entities which received payments in excess of $100,000 for the year ended 31 March 1998 with comparative figures for the year ended 31 March 1997. These entities are listed in Figure 12.

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

Figure 12

Transportation and Communications Expenditures
Entities Paid in Excess of $100,000
Years Ended 31 March
($ 000's)

Entities Which Received in Excess of $100,000		
Entity	1998	1997
Newfoundland Telephone Company (Contracts)	$ 5,186	$ 5,750
Postage by Phone	2,580	2,632
Universal Helicopters Nfld. Ltd.	1,772	2,148
NewTel Communications Inc.	1,091	777
NewTel Mobility Limited	870	750
Canada Post Corporation	906	672
Canadian Helicopters Limited	898	1,077
Provincial Airlines Limited	532	187
Harvey's Travel	465	850
LeGrow's Travel	413	130
Newfoundland and Labrador Air Transport Ltd.	333	23
Newfoundland Helicopters Ltd.	186	419
City of St. John's	167	207
Newfoundland and Labrador Hydro	165	190
V. Kelner Airways Limited	128	35
Labrador Airways Limited	102	49
Travel Management Limited	61	149
Expandair Inc.	0	1,280
Enterprise Newfoundland and Labrador Corporation	0	408
Payments under $100,000 to over 7,500 individuals or entities	16,010	14,316
Total	**$31,695**	**$32,179**

Source: Government's Financial Management Information System

Figure 10

Allowances and Assistance Expenditures Entities Paid in Excess of $500,000 Years Ended 31 March ($ 000's)

Individuals or Entities Which Received in Excess of $500,000		
Entity	1998	1997
Memorial University of Newfoundland	$ 4,538	$ 625
Newfoundland and Labrador Housing Corporation	2,177	1,911
Health Care Corporation of St. John's	1,527	4,370
Eastern Residential Tenancies Board	1,463	0
St. Francis Foundation	1,296	1,340
Choices for Youth	795	758
Daybreak Parent Child Centre	732	721
Vital Aire	725	594
Memorial United Church Group	696	703
Gambo Group Home	656	502
Pine Heights Residence Association	581	428
Bay St. George Youth Assessment	558	504
Labrador Group Home	516	522
Gander Regional Youth	515	501
Mount Pearl Group Home	421	613
Vera Perlin Society	134	1,332
Salvation Army Youth	80	567
Community Health St. John's	4	783
Health Care Developers Inc.	0	1,850
Eastern Regional Community Health Board	0	1,626
Central Newfoundland Regional Communtiy Health Board	0	703
Miscellaneous amounts to over 2,000 entities or individuals (1997 - over 1,650 entities or individuals)	367,947	381,578
Total	[illegible]	[illegible]

Source: Government's Financial Management Information System

Transportation and Communications

Transportation and communications expenditures include costs relating to such items as postage, freight, ambulance and air services, telecommunication services and travel for ministers, government employees and others. As indicated in Figure 1, payments for transportation and communications totalled $32 million for the year ended 31 March 1998. Figure 11 shows, by department, payments made for transportation and communications for the year ended 31 March 1998 with comparative figures for the year ended 31 March 1997.

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Government Services and Lands	1,939	1,935
Tourism, Culture and Recreation	1,719	1,866
Education	1,691	1,507
Executive Council	1,282	1,069
Development and Rural Renewal	1,143	1,242
Mines and Energy	1,057	737
Municipal and Provincial Affairs	1,019	1,069
Fisheries and Aquaculture	972	801
Finance	936	1,010
Environment and Labour	895	949
Industry, Trade and Technology	757	964
Legislature	714	539
Health and Community Services	466	398
Consolidated Fund Services	129	5
Public Service Commission	64	83
[illegible]	[illegible]	[illegible]

Source: Government's Financial Management Information System

We also summarized the payments for transportation and communications to show all entities which received payments in excess of $100,000 for the year ended 31 March 1998 with comparative figures for the year ended 31 March 1997. These entities are listed in Figure 12.

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

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NewTel Mobility Limited	870	750
Canada Post Corporation	666	672
Canadian Helicopters Limited	598	1,077
Provincial Airlines Limited	532	387
Harvey's Travel	465	850
LeGrow's Travel	413	130
Newfoundland and Labrador Air Transport Ltd.	333	23
Newfoundland Helicopters Ltd.	186	349
City of St. John's	167	207
Newfoundland and Labrador Hydro	165	190
V Kelner Airways Limited	128	35
Labrador Airways Limited	102	49
Travel Management Limited	61	149
Expandair Inc.	0	1,280
Enterprise Newfoundland and Labrador Corporation	0	408
Payments under $100,000 to over 7,500 individuals or entities	16,010	14,316
[illegible]	[illegible]	[illegible]

Source: Government's Financial Management Information System

Treasury Board Secretariat

Introduction

The common parliamentary means of providing spending authority to government is through the annual passing of supply acts. This involves having the Members of the Legislature vote on the government's funding requests. Approval by a majority of the Members of the House of Assembly is needed to pass an Act.

There are three types of supply acts which are usually approved by the Legislature each year. These are the main *Supply Act,* the *Interim Supply Act* and the *Supplementary Supply Act.* Each of these can be described as follows:

- *Supply Act*

  The main *Supply Act* provides the legal authority for Government to spend public funds after the Budget is approved by the Legislature.

- *Interim Supply Act*

  In the event that a fiscal year starts before the approval of the main *Supply Act*, the *Interim Supply Act* is a mechanism whereby funding can be provided to allow Government programs to continue at the equivalent of their current levels.

- *Supplementary Supply Act*

  In addition to the main *Supply Act* and the *Interim Supply Act*, a *Supplementary Supply Act* provides legislative authority for government to fund new and continuing services where there is no appropriation or insufficient appropriation for such services.

Findings

Special Warrants

Through the use of a "special warrant", the government can authorize itself to spend public money without obtaining the *prior* approval of the Legislature. Section 28 of the *Financial Administration Act* outlines two instances where a special warrant can be approved and additional funding can be provided to Government.

- Section 28(2) states where the sum appropriated by the Legislature for a **continuing service** is insufficient to meet requirements and there are no countervailing savings available, and the necessity is urgent, then the Lieutenant-Governor in Council may order that a special warrant be prepared for the Lieutenant-Governor's signature.

- Section 28(3) states where the Legislature is not in session or when the House of Assembly has been adjourned for more than 30 days, and an expenditure not foreseen and not provided for by the Legislature for a **new service** is urgently and immediately required for the public good, then the Lieutenant-Governor in Council may order that a special warrant be prepared for the Lieutenant-Governor's signature. The minister having charge of the new service must be of the opinion that the necessity is urgent and if not made, grave damage to the interests of the Crown or the public will result.

There were thirteen special warrants totalling $88.6 million issued in the 1997-98 fiscal year, of which $34.6 million were issued in March 1998. Figure 1 provides information on these special warrants.

3.3 Special Warrants

Figure 1

Special Warrants by Department
Year Ended 31 March 1997

Department	Details	Section 28(2) (continuing service)	Section 28(3) (new service)	Total	Date of Special Warrant
Education	To provide funding for the implementation of the Newfoundland and Labrador Education Investment Corporation.		$21,800,000	$21,800,000	March 13, 1998
	To provide additional funding for scholarships for needy students.	4,000,000		4,000,000	March 13, 1998
Executive Council	To provide additional funding for the operation of the Voisey's Bay office.		300,000	300,000	August 27,1997
	To provide additional funding for the development and implementation of the new FMIS system for the Government.	2,300,000		2,300,000	February 13, 1998
Finance	To provide additional funding for a capital grant to Newfoundland Municipal Financing Corporation.	2,600,000		2,600,000	March 13, 1998
Forest Resources and Agrifoods	To provide additional funding for the divesture of Newfoundland Farm Products Corporation.	7,800,000		7,800,000	October 6, 1997
Health	To provide additional funding for the purchase of urgently needed hospital equipment.	3,000,000		3,000,000	March 13, 1998
Legislature	To provide additional funding for the Referendum on Education Reform.	1,800,000		1,800,000	July 31,1997
Municipal and Provincial Affairs	To provide additional funds for an extension to the existing Canada-Newfoundland Infrastructure Agreement.	6,500,000		6,500,000	May 22, 1997
	To provide additional funding for the 1997-98 Employment Program.	2,600,000		2,600,000	March 13, 1998
	To provide additional funding for the Province's contribution to the City of St. John's Outer Battery Slope Stabilization Project.	367,000		367,000	March 13, 1998
Tourism, Culture and Recreation	To provide additional funding for the Heritage Foundation.	200,000		200,000	March 13, 1998
Works, Services and Transportation	To provide additional funds for the Labrador Ferry Services and the construction of the Trans Labrador Highway.	35,334,000		35,334,000	May 22, 1997
Total Special Warrants for the 1997-98 fiscal year		**$66,501,000**	**$22,100,000**	**$88,601,000**	

Source: 1996-97 Special Warrants

3.3 Special Warrants

Figure 2 provides summary information on special warrants for the last five years.

Figure 2

Special Warrants
Years Ended 31 March

Year	Section 28(2) (continuing service)	Section 28(3) (new service)	Total number of Special Warrants	Total Special Warrants	Special Warrants Issued in March of each Year
1993	6	1	7	$ 42,360,000	$ 2,500,000
1994	1	1	2	40,000,000	3,500,000
1995	11	2	13	57,855,000	30,381,700
1996	9	1	10	32,516,000	4,100,000
1997	6	1	7	75,700,000	75,700,000
1998	11	2	13	88,601,000	34,567,000
Totals	44	8	52	$337,032,000	$150,748,700

Source: Public Accounts

All special warrants issued are included in the next ensuing *Supplementary Supply Act*, which is presented to the Legislature for approval.

Nature of Funding Provided Under Special Warrants

Of the $88.6 million in special warrants issued in 1997-98, $30.9 million were issued although it appears there was not an urgent requirement for the funding. This $30.9 million was provided to departments as follows:

Education-Newfoundland and Labrador Education Investment Corporation	$21.8
Municipal and Provincial Affairs-Canada Newfoundland Infrastructure Agreement	6.5
Finance-Grant to Newfoundland Municipal Financing Corporation	2.6
	$30.9 million

3.3 Special Warrants

Figure 2 provides summary information on special warrants for the last five years.

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Years Ended 31 March

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1996	9	1	10	32,516,000	4,100,000
1997	6	1	7	75,700,000	75,700,000
1998	11	2	13	88,601,000	34,567,000
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Finance-Grant to Newfoundland Municipal Financing Corporation	2.6
	$30.9 million

This conclusion is based on our review of the circumstances surrounding these special warrants and on consideration of the delay from the date on which the special warrants were authorized to the dates the funding was used. Since it appears the funding was not urgently required, it could have been included in the 1998-99 budget. As a result, these special warrants do not appear to have been issued in accordance with the requirements of the *Financial Administration Act*. Details relating to these special warrants are as follows:

- Our review of the $21.8 million special warrant for the Department of Education dated 13 March 1998 disclosed that the $21.8 million along with an additional $3.2 million, for a total of $25 million was paid to the Newfoundland and Labrador Education Investment Corporation. In the Public Accounts of the Province, the $25 million expenditure was charged to the 1997-98 year. However, the Corporation did not spend any of this funding prior to 31 March 1998. In fact, at 31 March 1998 it held the $25 million in an investment account at 4.7% interest.

  Newfoundland and Labrador Education Investment Corporation was incorporated on 27 March 1998. The affairs of the Corporation are managed by a board of directors appointed by the Lieutenant-Governor in Council and all board members are full-time employees of the Province. The objective of the Corporation is to provide funds to school boards and others for construction, renovation, extension and equipping of educational facilities in the Province. The Corporation did not issue its first cheque until 6 July 1998 and at 30 November 1998 it still had $14.7 million in investments.

- Our review of the $6.5 million special warrant for the Department of Municipal and Provincial Affairs dated 22 May 1997 disclosed that this amount was to be added to the amount approved for subdivision 3.2.02 Canada-Newfoundland Infrastructure Program. The original estimate for that subdivision was $14,167,400 for a total appropriation of $20,667,400. The Public Accounts of the Province disclose that for the year ended 31 March 1998 the Department of Municipal and Provincial Affairs spent $12,009,049 for that subdivision and transferred $900,000 to Municipal Financial Assistance-Special Assistance and $1,650,000 to Engineering Services-Industrial Water Services while the remaining $6,108,351 lapsed.

- Our review of the $2.6 million special warrant for the Department of Finance dated 13 March 1998 disclosed that the $2.6 million along with an additional $400,000, for a total of $3 million was paid to the Newfoundland Municipal Financing Corporation. In the Public Accounts of the Province, the $3 million expenditure was charged to the 1997-98 year. However, the Corporation did not spend any of this funding prior to 31 March 1998. In fact at 31 March 1998 the Corporation held $15.8 million in cash and term deposits.

  During the 1996-97 fiscal year a special warrant had been issued to provide the Corporation with $9 million to establish a reserve fund to be used to assist with the restructuring of debt due to the Corporation from municipalities in financial difficulty. We now report that as at 7 December 1998 of the total of $12 million paid into the reserve fund through special warrants, $4.5 million has been spent while the remaining $7.5 million is still held by the Newfoundland Municipal Financing Corporation.

Impact on Government's Financial Statements

Special warrants as provided for in the *Financial Administration Act*, are intended to be issued to fund expenditures of an urgent and immediate nature.

Expenditures authorized by special warrants will be recorded as expenditures in the financial statements of the Consolidated Revenue Fund in the same year that the warrant is issued. As a result, these expenditures will decrease surpluses or increase deficits in the year in which the warrant is issued.

Because special warrants authorize expenditures that affect the reported surplus or deficit in the financial statements of the Consolidated Revenue Fund, the issuance of special warrants should be in compliance with the *Financial Administration Act*.

Treasury Board Secretariat's Response

1. *The Legislature has granted authority to Government to issue Special Warrants when certain circumstances are met. This authority is clearly outlined in the Financial Administration Act. In each case where a Special Warrant is issued, the relevant Minister must provide a statement indicating that the need for the Special Warrant is urgent. In addition, the Legislation requires, through the Financial Administration Act, that Government table Special Warrants in the Legislature within certain time frames.*

   The need for Special Warrants will inevitably arise from time to time, and a review of our records indicates that Special Warrants have, in fact, been issued in most years.

2. *You have made comments that $34.6 million in Special Warrants were issued in March 1998. While this is an accurate observation on your part, I do not believe it indicates anything particularly significant. In fact Government had issued Special Warrants for $54 million throughout the other months of the year. A strong commitment to sound financial management was made in the 1997/98 Budget and Government was reluctant to issue Special Warrants at any time, in order to help maintain financial discipline. Consequently, I do not believe there is anything significant resulting from the fact that there was a large number of Special Warrants in March.*

3. *A number of your comments make the claim that, in your opinion, the need for certain of the expenditures authorized by Special Warrants was not urgent. However, in all cases appropriate statements to this effect had been prepared by Ministers, and were tabled in the House of Assembly. I am not sure of any question having arisen of this nature in that forum.*

   I am not aware of any guidelines that would be helpful in determining what would constitute an urgent requirement. Presumably, in this case, the appropriate Ministers felt there was an urgency, and the House of Assembly obviously concurred. Accordingly, I believe that the Special Warrants meet the requirements of the Financial Administration Act.

4. *In my view the requirements of the Financial Administration Act were followed in these cases, and the Special Warrants are in compliance with the Act. In addition, the payments relating to the appropriations authorized by the Special Warrants were properly accounted for in the Consolidated Revenue Fund. the deficit reported in the Consolidated Summary Financial Statements is not affected by any amounts unexpended in the applicable Crown Entities. This is because of the consolidation process.*

3.4 Controls Over Microcomputer Hardware and Software

Introduction

Government has made a significant investment in microcomputer hardware and software in recent years and relies heavily on information technology to deliver programs, manage resources and account for what it does. Figure 1 shows information technology expenditures by department for the year ended 31 March 1998 totalling $27.1 million, of which $9.8 million relates to hardware and software.

Given the significant investment made by Government and the importance of the information maintained on the microcomputers, it is important for departments to have systems in place to manage and control their microcomputer inventory. This is especially important since microcomputers are movable capital assets that are susceptible to loss or theft.

Figure 1

Consolidated Revenue Fund
Information Technology Expenditure
Breakdown by Department and Category
31 March 1998
($ 000's)

Department	Hardware	Software	Subtotal	Processing	Professional Services	Other	Total 1998	Total 1997
General Government Sector								
Consolidated Fund Services	$ 1	$ 2	$ 3	$ -	$ -	$ -	$ 3	$ -
Executive Council	2,140	162	2,302	1,137	3,849	523	7,811	5,123
Finance	220	668	888	-	350	-	1,238	-
Government Services and Lands	1,031	95	1,126	514	520	198	2,358	1,721
Legislature	89	34	123	3	2	5	133	66
Public Service Commission	4	2	6	-	-	-	6	44
Works, Services and Transportation	415	73	488	412	313	327	1,540	1,438
	3,900	1,036	4,936	2,066	5,034	1,053	13,089	8,392
Resource Sector								
Development and Rural Renewal	240	56	296	66	48	64	474	484
Environment and Labour	133	21	154	15	99	20	288	678
Fisheries and Aquaculture	95	2	97	11	35	21	164	176
Forest Resources and Agrifoods	293	100	393	248	484	107	1,23[illegible]	1,375
Industry, Trade and Technology	25	-	25	-	139	-	164	271
Mines and Energy	151	39	190	1	-	8	199	186
Tourism, Culture and Recreation	246	56	302	32	272	89	695	456
	1,183	274	1,457	373	1,077	309	3,216	3,626
Social Sector								
Education	229	9	238	666	844	132	1,880	1,159
Health	283	34	317	31	1,143	22	1,513	1,573
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	2,641	750	3,391	3,798	3,181	404	10,774	7,906
Total	$7,724	$2,060	$9,784	$6,237	$9,292	$1,766	$27,079	$19,924

Source: Consolidated Revenue Fund financial statements and the Financial Management Information System

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Figure 1

Consolidated Revenue Fund
Information Technology Expenditure
Breakdown by Department and Category
31 March 1998
($000's)

Department	Hardware	Software	Subtotal	Personnel	Professional Services	Other	Total 1998	Total 1997
General Government Sector								
Consolidated Fund Services	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]
Executive Council	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finance	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	
Government Services and Lands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Legislature	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Public Service Commission	3	[illegible]	[illegible]					11
Works, Services and Transportation	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Resource Sector								
Development and Rural Renewal	240	56	296	[illegible]	48	[illegible]	[illegible]	[illegible]
Environment and Labour	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fisheries and Aquaculture	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Forest Resources and Agrifoods	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Industry, Trade and Technology	[illegible]		[illegible]		[illegible]		[illegible]	[illegible]
Mines and Energy	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]
Tourism, Culture and Recreation	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Social Sector								
Education	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Health	283	34	317	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Human Resources and Employment	1,406	63	1,469	2,338	15	77	3,899	2,901
Justice	439	450	889	539	883	113	2,424	1,885
Municipal and Provincial Affairs	284	194	478	224	296	60	1,058	388
	2,641	750	3,391	3,798	3,181	404	10,774	7,906
Total	$7,724	$2,060	$9,784	$6,237	$9,292	$1,766	$27,079	[illegible]

Source: Consolidated Revenue Fund financial statements and the Financial Management Information System

3.4 Controls Over Microcomputer Hardware and Software

To provide guidance and assistance to departments in the acquisition and use of computer hardware and software, the Treasury Board Secretariat, in 1991, reissued its information technology policy and procedures which are included in Volume II of the Province's *Management Manual*. The manual indicates that departments are responsible for among other things:

- maintaining an inventory of all hardware and software;
- communicating Government's policy against the illegal copying of software to all users; and
- periodically reviewing software installed on all computer equipment to ensure that only authorized software is being used.

Scope and Objective

We completed our review of controls over microcomputer hardware and software in three Government departments in September 1998. The departments of Municipal and Provincial Affairs, Justice, and Human Resources and Employment were selected for review. The period covered under our review was from 1 April 1997 to 31 March 1998.

Our objective was to make a general assessment of controls over microcomputer hardware, software and peripherals in Government. This assessment included determining:

- whether the departments maintain adequate physical and accounting controls over microcomputer hardware, software and peripherals; and
- whether the departments' documented policies and procedures were clearly defined and communicated to staff.

Conclusions

Government has made a significant investment in computer hardware and software in recent years. In 1996-97, Government departments spent $6.3 million on computer hardware and software. In 1997-98, expenditures had increased to $9.8 million. Given the significant cost of these purchases, we reviewed 3 of the 18 Government departments to determine whether computer hardware and software were adequately safeguarded and controlled. These 3 departments accounted for $1.9 million of the $6.3 million in expenditures in 1996-97 and $2.8 million of the $9.8 million in 1997-98. The departments reviewed were the departments of Municipal and Provincial Affairs, Justice, and Human Resources and Employment.

Our review indicated that controls over computer hardware and software in the three departments reviewed are not adequate. Specifically:

- The Department of Municipal and Provincial Affairs does not maintain an inventory of its computer hardware and software.

  For the Department of Justice and the Department of Human Resources and Employment, which did maintain an inventory of computer hardware and software, we determined that their systems were not accurate. For example, we identified 323 items of computer hardware and 176 pieces of software at the Department of Human Resources and Employment that were not in the inventory records. There were 45 pieces of software at the Department of Justice that were not in the inventory records. We also found 113 items of computer hardware which were included in inventory but which could not be located by the Department of Human Resources and Employment. We identified 10 pieces of software which were not present at the assigned location at the Department of Justice.

- There were 38 instances of software on computers for which the departments could not provide proof of ownership. In addition, there was one instance identified in the Department of Municipal and Provincial Affairs where the same copy of software, authorized for single use only, was found on 4 microcomputers reviewed.
- There were 8 instances where microcomputer equipment purchased by the Department of Municipal and Provincial Affairs could not be located.
- Government does not know the cost of their current investment in computer hardware and software. Similarly, the three departments reviewed do not know their current investment in computer hardware and software.

Policies over the safeguarding and control of computer hardware and software need to be improved and communicated to staff. For example, two of the three departments reviewed did not have a policy prohibiting the use of unauthorized software.

Departments do not routinely check their computers to ensure that only authorized software is being used.

Findings and Recommendations

Inventory Records

The Department of Justice and the Department of Human Resources and Employment currently have computer inventory systems in place. However, there is no computer inventory system maintained by the Department of Municipal and Provincial Affairs. To determine the reliability of the computer inventory systems, whether software on the computers was legally owned by Government, and whether computers and software purchased could be accounted for, we performed the following procedures:

- in each of the two departments which had a microcomputer inventory system, we chose 15 employees at random, identified the microcomputer and software that each employee was using, and checked to determine whether these items were recorded in the inventory system;
- in addition, for those same 15 employees identified in each of the two departments and for 15 employees chosen at random at the Department of Municipal and Provincial Affairs, we checked to determine whether each department could demonstrate proof of ownership for the software that each employee was using;
- we selected 15 items from the microcomputer inventory system in each of the two departments which had an inventory system to determine whether these items were at the department.
- we selected a sample of 15 computer hardware and software purchases between 1 April 1996 and 30 November 1997 for each of the three departments to determine whether the department could account for the asset; and
- we performed a general review of the inventory records maintained by the departments.

The results of our testing are outlined in Figure 2.

Figure 2

Inventory Records
Results of Testing

Finding	Municipal and Provincial Affairs	Justice	Human Resources and Employment	Total
Copies of software authorized for single use but found on additional microcomputers	3	-	-	3
Instances of software on microcomputers without proof of ownership:				
(1) Business type	12	1	4	17
(2) Other (including entertainment)	7	3	11	21
	19	4	15	38
Instances where software recorded in the inventory system was not found on the microcomputers indicated	No inventory system	10	-	10
Instances where hardware in the inventory system could not be located at the department	No inventory system	-	1	1
Instances where hardware was identified as "unaccounted for" in the inventory system	No inventory system	-	112	112
Instances where purchases of hardware could not be located at the department	8	-	-	8
Instances of software on microcomputers but not recorded in the inventory system	No inventory system	45	176	221
Instances where hardware was at the department but not recorded in the inventory system	No inventory system	-	13	13

In addition to the above, during a review of assets stored at a leased warehouse, officials of the Department of Human Resources and Employment provided a manual listing of 310 computer hardware assets including computers, monitors and keyboards which, although received during February and March 1998, were not recorded in inventory as of 17 April 1998.

During 1997-98, the Department of Justice switched from an in-house designed computer inventory system to an "off the shelf" software package. Departmental officials indicated that the primary focus of the previous system was recording microcomputer hardware whereas the current system records both microcomputer hardware and software. During our review, it was determined that adjustments were still being made for inventory on hand at 31 March 1998 based upon submissions from regional offices. In one instance identified during testing, the sample item selected, a software package, was not recorded in inventory. Upon further review, it was determined that no software had been recorded in inventory for that particular branch office. An independent review of regional office inventories by the Department of Justice is necessary to confirm the details which have been provided and recorded.

Based upon our review of the records contained in the inventory system at the Department of Human Resources and Employment, a total of 1,971 pieces of computer hardware and software were identified which, although designated as having been issued, did not have the staff assignment field completed. Although the office at which the records are located was indicated, significant difficulties can result in locating assets when no assignment to an individual staff member is indicated.

Recommendations

Departments should ensure that all microcomputer hardware and software is recorded in the inventory system.

Departments should ensure that all computer hardware and software recorded in the inventory system is accurate and can be accounted for.

Authorization

The unauthorized use of software is a criminal offence and penalties can be imposed upon Government if employees are found to be illegally copying software or using software which was illegally copied elsewhere. As indicated in Figure 2, we identified 38 instances where the departments could not provide proof that they owned the software being used on its computers. Our review indicated that of the 38 instances, 17 appeared to be business type software while the remaining 21 were related to other types of software including entertainment. In addition, there was one instance noted at the Department of Municipal and Provincial Affairs where the same copy of software, authorized for single use only, was found on four microcomputers reviewed.

As indicated in Figure 3, physical and accounting controls over microcomputers and software at the three departments we reviewed were not adequate. Furthermore, departments do not routinely check their computers to ensure that only authorized software is being used.

Recommendation

Departments should ensure there is proper authority for all computer software on microcomputers.

Control Procedures

It is important to ensure that there are adequate physical and accounting controls over microcomputers and software of the various Government departments.

An adequate system of controls would include:

- policies relating to the control of computer hardware and software;
- a system in place to identify specific assets, the individual to which they are assigned, and location;
- periodic verification of the inventory records by a physical count; and
- adequate procedures to record transfers, additions and disposal of computer hardware and software.

The results of our review of controls in the departments of Municipal and Provincial Affairs, Justice and Human Resources and Employment are outlined in Figure 3.

Figure 3

Control Procedures
Review of Controls

Finding	Municipal and Provincial Affairs	Justice	Human Resources and Employment
Inventory control system in place	No	Yes (1)	Yes (1)
Documented procedures for the maintenance of the inventory control system	No inventory system	No	Yes
Policies for the use of microcomputers	No	No	Yes
Policies on the use of unauthorized software	No (2)	No (2)	Yes
Centralized control over software	No	No	Yes

(1) Results of testing disclosed weaknesses in these systems.
(2) The department indicated that staff were notified; however, no evidence to support this could be provided.

Although the Department of Municipal and Provincial Affairs did not have an inventory control system in place at the time of our review, some preliminary work for the St. John's Headquarters had been completed and the Department planned to have a system in place before the end of the 1998-99 fiscal year.

Recommendation

Departments should ensure that there are adequate physical and accounting controls over microcomputer hardware and software.

Departments' Response

Department of Human Resources and Employment

The Department of Human Resources and Employment concurs with the importance of maintaining adequate controls over microcomputer hardware, software, and peripherals in order to safeguard government's investment in information technology. The Department has been making significant progress in this area in the past three years with the implementation of a computerized inventory system and procedures for the tracking of our approximate 6,700 items of computer items in fifty locations across the province. We concur that additional improvements can still be made and will continue to address deficiencies in this area.

In regard to particular findings, the Department has the following comments:

1. *Of the 323 items (4.8% of total) of computer hardware referred to in the conclusion of the report, 310 of these were recorded manually initially but were keyed into our inventory system over time. The remainder have also been recorded in our system since the audit.*

2. *In respect to the 176 items of computer software identified on departmental equipment and not recorded in our computer inventory system, our procedure has been to purchase and record software in bulk manually in our files. Only specialized software are recorded specifically in our inventory system. We will review our procedure in this area.*

3. *113 items of computer hardware identified as 'unaccounted for' in our inventory system have been reduced to 73 items. Of these, only 15 were microcomputers with the remainder being hardware components. This category in our system is for recording assets which typically have been transferred to another office and the record of the transfer was not put into our system. The Department will initiate inventory checks to identify the current location of this equipment, will update our records, and will improve our transfer procedures.*

4. *A total of 1,971 pieces of computer hardware and software in our inventory system, while recorded by office location, did not have the staff assignment field completed. Our policy has been to track equipment by office location with the staff assignment information being optional. We will review this policy.*

While the Department's policy has been to not permit unauthorized software on departmental microcomputers, we will implement a procedure to monitor staff microcomputers at random for unauthorized software.

Department of Municipal and Provincial Affairs

1. *As correctly pointed out in the report, Municipal and Provincial Affairs was in the process of doing a departmental inventory of hardware and software at the time of the investigation. The hardware inventory is complete, and the software inventory is continuing. This is also helping with the department's Year 2000 compliance efforts.*

2. *A database has been developed for software inventory control which records the user, the licence number, the date purchased, the PO Number, and the Vendor. This will enable the Department to control unauthorized installation of software.*

3. *The Information Technology Division of Municipal and Provincial Affairs was formed two years ago to service Municipal and Provincial Affairs, Government Services and Lands, and Development and Rural Renewal. Consequently, there was much movement of people and resources including the computer hardware and software inventory. However, documentation to support the inventory did not flow with the equipment and software.*

4. *The Information Technology Division is also beginning to adopt policies to deal with Inventory issues including personal software on government computers, unauthorized installations of software, etc.*

Department of Justice

The Department of Justice is pleased with its progress in this area, and will continue to improve and maintain controls.

Year 2000

Introduction

In the early days of computer system design, computer software was developed to use two digit date codes to represent a particular year. This practice was followed in order to save costly storage space and reduce processing time. On 1 January 2000 some of these systems are expected to interpret the year as "1900" instead of "2000", or to abort operations completely because the year component will be processed as "00". This problem is commonly referred to as the Y2K bug and could result in failure of computer systems which are dependent on date information. In addition to computer systems, many machines and equipment have microprocessors that may also use two digits to process year data. Therefore, equipment such as facsimile machines, heating systems and medical equipment, may also be affected.

Information Technology experts advise that the correction of the Y2K issue should be addressed before the end of 1998 because problems may begin to surface in 1999 when future dates begin to be recorded and processed. It is also agreed that timely attention to identification and correction of the Y2K issue is necessary to provide the time required to correct and test the affected systems.

There are key environmental factors that have to be considered when dealing with correcting Y2K problems including, the limitation of time and qualified personnel, the difficulty in obtaining computer parts or components and the costs associated with making systems and equipment Year 2000 compliant.

Scope and Objectives

We reviewed Government's work plans to address the Year 2000 problem for Government departments, Crown agencies, the hospitals and municipalities. Our objective was to determine whether Government departments, Crown agencies, the hospitals and municipalities were taking appropriate action to address the Y2K problem.

Conclusions

Government departments have identified all mission critical systems and have developed a plan to make the necessary corrections required to have them Year 2000 compliant. Departments, however, have not identified all microprocessor dependent equipment (e.g. facsimile machines, heating systems and medical equipment) that may require changes or replacement as a result of the Year 2000 problem. Also, departments have not reported to Treasury Board Secretariat on their progress to address Year 2000 concerns on computer systems that are not considered critical for operations.

Government does not know the full extent of potential Y2K issues in its Crown agencies because the information has not been provided to Treasury Board Secretariat.

A Provincial Advisory Committee has been established to address the Year 2000 issue for all health care organizations in the Province. Boards are at various stages of addressing the Y2K problems but have not yet determined the total estimated cost of making the required corrections. Given that we are now approaching 1999, we are concerned with the progress being made by the health care organizations to identify and correct Year 2000 issues.

We are concerned that there is no monitoring of the municipalities to determine the status of any work undertaken by them to correct Year 2000 issues or to estimate the cost of correcting the Year 2000 problems.

Findings and Recommendations

Government and its agencies, hospitals and municipalities are dependent on computers in their daily operations in that their records are maintained on computer systems and they have equipment with microprocessors. Our review of the work undertaken to address the Y2K issue in Government and its agencies, hospitals and municipalities indicated the following.

1. Government Departments

Government's first contact with the Y2K problem was in 1995 when the Motor Registration System was changed to allow the issuance of drivers licences that would expire in the year 2000. In 1996, Government contracted NewTel Information Solutions Limited to review its major computer systems to identify those that required modification or replacement to address the Y2K issue. This resulted in an inventory of both mainframe and microcomputer systems in Government departments along with a preliminary assessment of whether the systems were Year 2000 compliant. Government appointed a Year 2000 co-ordinator at the Information Technology Management Division of the Treasury Board Secretariat to coordinate its Y2K efforts.

A summary of Year 2000 preparedness was completed for mainframe and microcomputer computer systems on 10 November 1997. On 5 June 1998, Treasury Board Secretariat requested that departments start providing quarterly reports on the status of Y2K work. The status reports were to include information on mainframe applications, custom microcomputer applications, hardware, network operating systems and related hardware, and any equipment with embedded processors. In addition to that, each item was to be prioritized and have compliancy deadlines set.

The information in the first quarterly reports from the departments was summarized by the Treasury Board Secretariat in early October 1998 and indicated that the majority of Government's mission critical systems are expected to be Year 2000 compliant by the end of 1998.

Our review of the report prepared by Treasury Board Secretariat indicated the following:

- Only one department indicated that it was identifying and assessing all equipment with embedded processors that could have a significant impact on the operation of the department if they were found not to be Year 2000 compliant. Departments were notified that information on equipment with embedded processors was required to be submitted in the quarterly reports. As a result, the potential impact on the operation of the other departments was not known.
- Five departments did not provide progress information on their non-critical and microcomputer based systems. As a result, it was not known whether progress to date on these systems was satisfactory.

2. Agencies of the Crown

During the financial statement audits of 25 crown agencies which we audit, we made an assessment in June 1998 as to whether computer systems of these Crown agencies were Year 2000 compliant. Of the 25 assessed, 3 were fully compliant, 4 were partially compliant, 7 were not affected by the Year 2000 issue and 11 had computer systems that were not Year 2000 compliant. We informed each Crown agency of the significance of the Year 2000 issue and informed them that if these issues are not addressed, the agency may not be able to conduct normal business operations.

On 5 June 1998, Treasury Board Secretariat requested that all Government Crown agencies start providing quarterly reports on the status of Y2K work. The status reports were to include information on mainframe applications, custom microcomputer applications, hardware, network operating systems and related hardware, and any equipment with embedded processors. In addition to that, each item was to be prioritized and have compliancy deadlines set.

The first quarterly reports from the Crown agencies were summarized by the Treasury Board Secretariat in early October 1998 and the review indicated that information was not included on all of the Crown agencies. Since then, the Treasury Board Secretariat has been following up to determine the current status of these Crown agencies with respect to the status of their Y2K work.

3. Health Care Organizations

A Provincial Advisory Committee was established in 1998 to address the Year 2000 issue for all health care organizations in the Province. These organizations include the 8 hospital boards and the 4 community health care boards. A Year 2000 Co-ordinator has been appointed to assess the current status of the Y2K issues in the health care sector and to monitor the progress of work required to make the health care organizations Year 2000 compliant.

The boards have not determined the total estimated cost to correct the Y2K problems for all of their computer systems and other microprocessor dependent equipment (e.g. medical equipment). We do know, however, that the cost of correcting Y2K problems are substantial in other Provinces which have already completed assessments in the health care sector. Given that we are now approaching 1999, we are concerned with the progress being made by the health care organizations to identify and correct Year 2000 issues. The Year 2000 Co-ordinator has indicated that not all boards have started to replace or upgrade computer systems and microprocessor dependent equipment. It is important that all boards address the Y2K issues to allow sufficient time to acquire, convert and test computer systems and equipment.

4. Municipalities

The Department of Municipal and Provincial Affairs has distributed information to municipalities to inform them that computer systems and microprocessor dependent equipment of the municipalities may be affected by the Year 2000 bug.

The Department, however, is not monitoring the municipalities to determine either the cost of correcting any Y2K problems or the status of any work undertaken by them to correct Y2K issues. It is probable, however, that municipalities will require significant amounts of monies to make the required computer system and equipment replacements or corrections. It is therefore important that the Department of Municipal and Provincial Affairs become involved in monitoring the progress of municipalities with regards to this issue.

Recommendations

Government should ensure that all departments and agencies of the Crown, health care sector organizations and municipalities are going to be Year 2000 compliant.

Government should determine the amount of money required to make all required computer systems and microprocessor dependent equipment Year 2000 compliant for all departments and agencies of the Crown, health care sector organizations and municipalities.

3.6 Accounts and Loans Receivable in Government

Introduction

As I have indicated in previous reports to the House of Assembly, Government's systems for recording, reporting and controlling accounts receivable do not always provide timely and accurate information to users. As a result, Government does not know how much money is owed to it at any given point in time. The general exception is the amount owed as of the 31 March of each year which is determined subsequent to year end in order to prepare the financial statements of the Province. Government anticipates that this problem will be addressed with the implementation of its new accounting system, which is presently in the implementation stage.

Our review of Government departments also indicates that a significant portion of their accounts receivable are in arrears and that their cash management program, which includes the collection of these accounts, is not adequate.

Figure 1 provides information on amounts owed to Government for each of the six years to 31 March 1998 along with the amount that Government considers to be uncollectible and amounts written off. These amounts owed include accounts and taxes receivable, as well as loans, advances and mortgages receivable.

Figure 1

Consolidated Revenue Fund
Accounts, Taxes, Loans, Advances and Mortgages Receivable
Years Ended 31 March
(000')

	1993	1994	1995	1996	1997	1998	Total
Total Receivables	$531,265	$544,156	$551,764	$537,153	$474,797	$461,612	
Less: Amounts Considered to be Uncollectible	242,480	255,565	279,065	279,924	215,210	211,832	
Net Receivables	$288,785	$288,591	$272,699	$257,229	$259,587	$249,780	
Accounts Written-off	**$80,022**	**$14,242**	**$5,398**	**$20,790**	**$69,877**	**$7,972**	**$198,301**

Source: Consolidated Revenue Fund Financial Statements

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Source: Consolidated Revenue Fund Financial Statements

3.6 Accounts and Loans Receivable in Government

Scope and Objective

We reviewed the amounts owed to Government as at 31 March 1998 to determine whether they are collected on a timely basis.

Conclusion

In addition to not collecting amounts owed to it on a timely basis, Government has written off significant amounts owed to it. The systems in place to record, monitor, control, and collect amounts owed to Government are not adequate.

Findings and Recommendation

Figure 2 provides details on the $461.6 million owed to Government as of 31 March 1998:

Figure 2

Consolidated Revenue Fund
Amounts owed to Government
31 March 1998
($000's)

Type of Receivable	Balance	Amount Outstanding in Excess of One Year	Amount Considered Doubtful of Collection
Crown Agencies	(Note 1) $224,188	$27,770	$111,480
Taxes receivable	130,411	56,005	43,902
Commercial loans	25,388	18,048	23,000
Miscellaneous receivables	31,532	11,692	5,452
Court fines	21,797	15,499	9,931
Social Assistance overpayments	24,979	20,554	16,986
Other	3,317	588	1,081
Total	**$461,612**	**$150,156**	**$211,832**

Note 1 Of the $224.2 million relating to Crown Agencies, $139.3 million relates to Enterprise Newfoundland and Labrador Corporation, the Fisheries Loan Board of Newfoundland and the Farm Development Loan Board. The amount owed to these entities for loans made is $51 million in arrears. Also, of the $224.2 million, $31.5 million is owed by the Newfoundland Industrial Development Corporation on a long-term basis with no specific repayment date.

3.6 Accounts and Loans Receivable in Government

Our review of the amount owed to Government indicated the following:

- Government's average cost of borrowing in the capital market for the year ended 31 March 1998 was 5.7%. If Government had collected the $150 million outstanding for more than one year and the $51 million in arrears with the lending entities and used these funds to retire debt or to reduce current borrowing, annualized savings on debt servicing could have exceeded $11.5 million.

During the last six years Government has written off $198.3 million in accounts receivable owed to it as follows:

Figure 3

Consolidated Revenue Fund
Accounts and Loans Receivable Written Off
1993 to 1998
($000's)

Entity	Amount
Baie Verte Mines Inc.	$47,551
Newfoundland Industrial Development Corporation	29,229
Newfoundland Enviroponics Limited	15,252
Newco Corporations	14,981
Enterprise Newfoundland and Labrador	10,894
Newfoundland Dockyard	8,065
Ocean Harvesters Limited	6,649
Cape Pine Fisheries Ltd.	6,466
Miscellaneous Loans and Mortgages Forgiven which are less than $300,000 individually	5,357
Fisheries Loan Board of Newfoundland	4,421
St. Lawrence Fluorspar Limited	3,919
Fisheries Loans	3,849
Court Fines	3,840
Notre Dame Bay Fisheries	3,762
Social Assistance Overpayments	3,559
Universal Group of Companies	3,504
Department of Health	3,216
Harbour Grace Fishing Company Limited	2,368
Oceana Seafood Processors Limited	2,175
St. Clares Mercy Hospital	1,993
Other Government Departments - Accounts Written Off	1,569
Superior Seafoods Limited	1,567
St. John's Metropolitan Area Board	1,475
Governor's Park Limited	1,428

3.6 Accounts and Loans Receivable in Government

Figure 3 (cont'd)

Entity	Amount
Great Northern Seafoods Limited	1,414
Petty Harbour Fishermen's Producer's Co-operative Society Limited	1,316
Blue Ocean Products Limited	1,314
Reid's Products Limited	931
Petty Harbour Fisheries Ltd.	926
Belle Isle Seafoods Ltd	799
White's Fisheries Limited	770
Department of Natural Resources	667
Island Tile and Slate	513
Nordco Limited	478
Department of Fisheries	434
Sop's Arm Fisheries (1988) Limited	341
Gander Masonic Memorial Complex Inc	340
Ocean Kist Products (1970) Ltd	338
Department of Works, Services and Transportation	316
Trouty Seafoods Limited	315
Total	**$198,301**

- In addition to the $198.3 million, during the years 1993 to 1998 the Province wrote off $11.2 million in tax forgiveness and $17.6 million in tax remissions.

- As at 31 March 1998, Government anticipated that $211.8 million or 45.9% of the $461.6 million amount owed to it will likely not be collected.

- There is no Government-wide system to record, control and collect total amounts owed to Government. Departmental systems range from manual year-end listings and other manual records, to computerized systems and there is little consistency among these systems.

Recommendations

Accounts receivable should be collected on a timely basis.

Government should give priority to implementing an accounts receivable system so that information on the amounts owing to it are readily available.

Figure 3 (cont'd)

Entity	Amount
Great Northern Seafoods Limited	1,414
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Recommendations

Accounts receivable should be collected on a timely basis.

Government should give priority to implementing an accounts receivable system so that information on the amounts owing to it are readily available.

Treasury Board Secretariat's Response

We agree that accounts receivable should be collected on a timely basis. We continue to encourage departments to collect their outstanding accounts or where appropriate, submit them to Treasury Board for write-off. We cannot comment on any collection activity in any specific departments and assume you will be contacting them directly if necessary.

There are procedures in place to ensure that accounts are written-off only if this is the appropriate course of action. These procedures include a review to determine that collection options have been exhausted. Options for assisting in collection of Government's accounts receivable are being pursued.

As you are aware, there will be improvement in the future in the accounts receivable systems with the implementation of the government-wide Oracle accounts receivable module. We expect this will allow departments to more efficiently structure their collection activities.

3.7 Monitoring Regional Economic Development Boards

Department of Development and Rural Renewal

Introduction

In June 1992, the Provincial Government's *Challenge & Change: A Strategic Economic Plan for Newfoundland and Labrador* identified many objectives which would determine the focus and direction of the Province's future economic development activity. In particular, the Strategic Economic Plan called for the creation of economic zones to:

- facilitate the development of economic plans by the people in each zone;
- facilitate joint initiatives by communities within the zone;
- promote the economic opportunities and strengths of each zone and region; and
- facilitate more regionalization of Government administration.

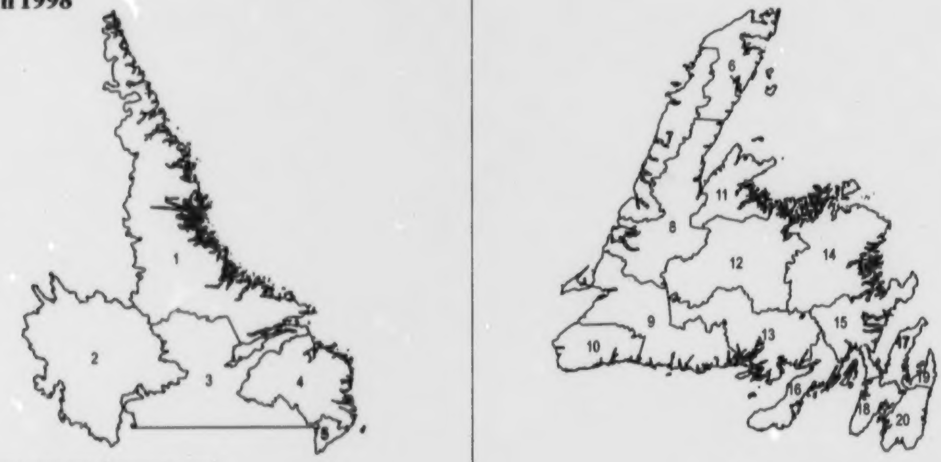
In May 1994, the Task Force on Community Economic Development was established and consisted of federal, provincial, and community representatives. The major objective of the Task Force was to make recommendations regarding an approach to regional development in each of the proposed economic zones. The Task Force issued its report in January 1995. In that same month, Cabinet provided direction on each of the recommendations contained in the report and approved the establishment of 19 (now 20) regional economic zones and regional economic development boards.

The Task Force identified a two phase approach to the establishment of the regional economic development boards and the development and implementation of strategic economic plans for each board. It was decided that the boards would be funded by phase. Phase 1 included the development of a strategic plan for each zone while Phase 2 included the implementation of the strategic plans.

To commence the process of establishing regional economic development boards, Government established provisional boards to determine the structure and process of establishing permanent boards. These permanent boards are incorporated entities with democratically elected members that are community based. The 20 regional economic zones are outlined in Figure 1.

Figure 1

Newfoundland and Labrador
Economic Zones
31 March 1998



Note: Maps are not drawn to scale

3.7 Monitoring Regional Economic Development Boards

The funding for the regional economic development boards was provided through the Canada-Newfoundland Cooperation Agreement on Strategic Regional Diversification (SRDA). The Department of Development and Rural Renewal was established in March 1996 to be the lead department in the development of economic zones. During 1996-97 the Department took over the administration of the SRDA. To facilitate the implementation of regional economic plans as set out in the Task Force Report on Community Economic Development, $3.7 million was initially allocated for Phase 1 and 2 in the SRDA Agreement and the original allocation of $3.7 million was subsequently increased to $6.1 million. This increase was approved by the Management Committee administering the Agreement. As indicated in Figure 2, actual expenditures totalled $5.5 million as at 31 March 1998. This was in addition to the $750,916 budgeted for the provisional boards.

Scope and Objectives

We conducted our review of the systems and processes used by Government to monitor the activities of the 20 regional economic development zones and boards. The review was completed in October 1998. The objectives of our review were to determine:

- whether all 20 regional economic development boards have been established and have developed strategic economic plans; and
- whether the systems and procedures in place were adequate to monitor the activities of the regional economic development boards.

Conclusions

In May 1994, the Task Force on Community Economic Development was established to make recommendations regarding an approach to regional development in each of the Province's proposed economic zones. In January 1995, the Task Force issued its report and Cabinet provided direction on each of the recommendations and approved the establishment of 19 (now 20) regional economic zones and regional economic boards. Our review indicated that the direction of Cabinet was not always followed. For example:

- Performance contracts and annual progress reports which would provide information to the members of the House of Assembly and the public on the activities and progress of each of the Boards are not being tabled before the House of Assembly.
- Cabinet directed that total administrative costs of the new zonal boards should be less than the administrative costs of the previous organizational arrangements. To date, this has not been determined. This is especially significant since the original budget of $3.7 million for Phases I and II had been increased to $6.1 million.

As at 31 March 1998, 17 of the 20 Boards had completed and submitted their strategic plans. We note that as at the time of our review (October 1998), 18 Boards had completed and submitted their strategic plans.

With regard to Zone 1, an independent audit commissioned by the Department indicated management problems and identified various expenditures which were not in accordance with its performance contract. The Department is working towards resolving this matter.

In accordance with the performance contracts, zonal boards are required to provide information to the Department to keep it apprised of their progress. Our review indicated that the Department is not always receiving the information it is required to receive. As a result, the Department does not know whether all of the zones are complying with their performance contracts.

Findings and Recommendations

Funding Under the Canada-Newfoundland Cooperation Agreement on Strategic Regional Diversification

The funding for the development, coordination and strategic planning for the regional economic development boards was provided under the Canada-Newfoundland Cooperation Agreement on Strategic Regional Diversification (SRDA). As at 31 March 1998, there was $6.1 million budgeted for the development and implementation of zone strategies. Originally, the SRDA budgeted $3.7 million for the development and implementation of the strategies, but due to the over-commitment of funding, an additional $2.4 million was transferred from other programs.

The primary purpose of Phase 1 was the development of a strategic economic plan for each zone. A review of departmental reports indicated that total funding to regional economic development boards for Phase 1 was $3.6 million as shown in Figure 2. The budget for Phase 1 was $3.2 million. There were 15 boards that exceeded their approved budget during Phase 1 which resulted in approved budget extensions of $426,557. Our review disclosed that 3 of the 20 boards were still in Phase 1 and did not have their strategic economic plans completed. There was only $55,220 remaining in the budget to complete Phase 1 for these 3 zones.

Phase 2 involves facilitating the implementation of the development strategies identified in the strategic economic plans of each zone. Figure 2 indicates that under the SRDA, $2.5 million was budgeted for the first year of operations during Phase 2. It was noted that this did not include the full budget for five zones. The additional budget for these five zones was subsequently determined to be $895,000. As a result, anticipated cost for completing the first year of Phase 2 is $3.4 million.

In addition to the funding provided to the permanent boards indicated in Figure 2, departmental officials indicated that the budget for the provisional boards totalled $750,916. As at 31 March 1998, the provisional boards had received $803,202. The actual funding provided to the provisional boards ranged from $21,470 to $50,172.

Figure 2

Canada-Newfoundland Cooperation Agreement on Strategic Regional Diversification
Zonal Development Strategies Sub-Program
31 March 1998

Zone	Phase 1 Revised Budget	Phase 1 Budget Extensions	Phase 1 Extended Budget	Phase 1 Actual Expenditures	Amount remaining in Phase 1	Phase 2 Revised Budget	Phase 2 Actual Expenditures	Amount remaining in Phase 2	Status of Zone
1	$213,800	$52,420	$266,220	$262,000	$4,220	$0	$0	$0	Phase 1
2	138,750	0	138,750	138,750	0	145,000	87,000	58,000	Phase 2
3	151,000	22,700	173,700	173,700	0	165,000	99,000	66,000	Phase 2 (1)
4	200,000	28,609	228,609	228,609	0	200,000	200,000	0	Phase 2
5	126,000	9,265	135,265	135,265	0	140,000	140,000	0	Phase 2
6	145,000	29,025	174,025	174,025	0	170,000	170,000	0	Phase 2
7	140,000	25,978	165,978	165,978	0	162,000	162,000	0	Phase 2
8	170,000	42,275	212,275	212,275	0	165,000	165,000	0	Phase 2
9	140,000	22,000	162,000	162,000	0	170,000	102,000	68,000	Phase 2
10	160,000	0	160,000	160,000	0	165,000	99,000	66,000	Phase 2
11	160,000	5,000	165,000	165,000	0	170,000	102,000	68,000	Phase 2
12	175,000	7,872	182,872	182,872	0	170,000	102,000	68,000	Phase 2
13	160,000	24,000	184,000	184,000	0	165,000	99,000	66,000	Phase 2
14	230,000	78,000	308,000	308,000	0	0	0	0	Phase 2
15	186,530	0	186,530	186,530	0	165,500	165,500	0	Phase 2
16	160,000	46,118	206,118	206,118	0	170,000	102,000	68,000	Phase 2
17	168,000	8,295	176,295	176,295	0	170,000	102,000	68,000	Phase 2
18	10,500	0	10,500	10,500	0	0	0	0	Phase 1 (2)
19	195,000	25,000	220,000	220,000	0	25,000	25,000	0	Phase 2 (3)
20	170,000	0	170,000	119,000	51,000	0	0	0	Phase 1
Total	$3,199,580	$426,557	$3,626,137	$3,570,917	$55,220	$2,517,500	$1,921,500	$596,000	

Source: Department of Development and Rural Renewal

(1) The performance contract for Phase 2 covered the period from 19 December 1997 to 18 December 2002; however, the contract was signed on 15 April 1998.
(2) The performance contract for Phase 1 covered the period from 1 January 1998 to 31 December 1998; however, the contract was signed on 10 July 1998.
(3) The performance contract for Phase 2 covered the period from 1 January 1998 to 31 December 2002; however, the contract was signed on 10 July 1998.
(4) Total actual combined expenditures for Phases 1 and 2 is $5,492,417.

3.7 Monitoring Regional Economic Development Boards

Figure 2

Canada-Newfoundland Cooperation Agreement on Strategic Regional Diversification
Zonal Development Strategies Sub-Program
31 March 1998

Zone	Phase 1 Revised Budget	Phase 1 Budget Extensions	Phase 1 Extended Budget	**Phase 1 Actual Expenditures**	Amount remaining in Phase 1	Phase 2 Revised Budget	**Phase 2 Actual Expenditures**	Amount remaining in Phase 2	Status of Zone
1	$213,800	$52,420	$266,220	**$262,000**	$4,220	$0	**$0**	$0	Phase 1 [illegible]
2	138,750	0	138,750	**138,750**	0	145,000	**87,000**	58,000	Phase 2
3	151,000	22,700	173,700	**173,700**	0	165,000	**99,000**	66,000	Phase 2 (1)
4	200,000	28,609	228,609	**228.609**	0	200,000	**200,000**	0	Phase 2
5	126,000	9,265	135,265	**135.265**	0	140,000	**140,000**	0	Phase 2
6	145,000	29,025	174,025	**174,025**	0	170,000	**170,000**	0	Phase 2
7	140,000	25,978	165,978	**165.978**	0	162,000	**162,000**	0	Phase 2
8	170,000	42,275	212,275	**212.275**	0	165,000	**165,000**	0	Phase 2
9	140,000	22,000	162,000	**162,000**	0	170,000	**102,000**	68,000	Phase 2
10	160,000	0	160,000	**160,000**	0	165,000	**99,000**	66,000	Phase 2
11	160,000	5,000	165,000	**165.000**	0	170,000	**102,000**	68,000	Phase 2
12	175,000	7,872	182,872	**182.872**	0	170,000	**102,000**	68,000	Phase 2
13	160,000	24,000	184,000	**184,000**	0	165,000	**99,000**	66,000	Phase 2
14	230,000	78,000	308,000	**308,000**	0	0	**0**	0	Phase 2
15	186,530	0	186,530	**186.530**	0	165,500	**165,500**	0	Phase 2
16	160,000	46,118	206,118	**206,118**	0	170,000	**102,000**	68,000	Phase 2
17	168,000	8,295	176,295	**176,295**	0	170,000	**102,000**	68,000	Phase 2
18	10,500	0	10,500	**10.500**	0	0	**0**	0	Phase 1 (2)
19	195,000	25,000	220,000	**220,000**	0	25,000	**25,000**	0	Phase 2 (3)
20	170,000	0	170,000	**119,000**	51,000	0	**0**	0	Phase 1
Total	$3,199,580	$426,557	$3,626,137	**$3,570,917**	$55,220	$2,517,500	**$1,921,500**	$596,000	

Source: Department of Development and Rural Renewal

(1) The performance contract for Phase 2 covered the period from 19 December 1997 to 18 December 2002, however, the contract was signed on 15 April 1998.
(2) The performance contract for Phase 1 covered the period from 1 January 1998 to 31 December 1998, however, the contract was signed on 10 July 1998.
(3) The performance contract for Phase 2 covered the period from 1 January 1998 to 31 December 2002, however, the contract was signed on 10 July 1998.
(4) Total actual combined expenditures for Phases 1 and 2 is $5,492,417.

At the time of our review, there were no policies for the monitoring and control of the operating budgets of the boards at the Department. In addition, the budget process had not been defined, approved and documented by the Department. The lack of well-defined policies on zonal budgets can result in a lack of control over zonal expenditures. In September 1997, when the Management Committee increased the zonal board funding of $3.7 million, Committee members expressed their concern that the amounts being negotiated with the zonal boards appear to increase with each negotiation, and that the final negotiated amounts for all boards will surpass the available amount of funding. In October 1997, the Management Committee members expressed further concern with increasing budget amounts and reiterated their position that regional economic development board budgets must be kept within the approved levels.

Recommendation

The Department should ensure that budgeting policies and procedures for the control over the operating budgets of the boards are properly established and communicated.

Government Direction

1. Cabinet Direction in January 1995

In January 1995, subsequent to the receipt of the Report of the Task Force on Community Economic Development, Cabinet reviewed the report and provided direction with respect to the specific recommendations contained in that Report. The direction of Government was not always followed. For example:

- All boards were required to prepare and sign performance contracts outlining the expectations of Government and the boards including a reduction in administrative costs. Cabinet required that these performance contracts for Phase 1 and Phase 2 must ensure that identifiable savings in total administrative costs are realized for the new zonal boards as compared to previous organizational arrangements. The savings need not apply within every zone as long as there are savings from the overall "administrative envelope". Departmental officials informed us that there has been no evaluation to determine if savings in total administration costs have been realized for the new zonal boards as compared to previous organizational arrangements.

- Cabinet directed that interim funding should be continued for a period of six months after the establishment of the provisional boards to existing regional development agencies (e.g. regional development associations, business development centres and community futures) and umbrella organizations currently funded by government for community economic development (e.g. Newfoundland and Labrador Rural Development Council). Departmental officials informed us that funding of $1,303,500 was provided during this six-month period. However, contrary to Cabinet direction, departmental officials indicated that these agencies received approximately $537,527 after this six-month period.

- The Task Force recommended that the performance contracts negotiated between the regional economic development boards and governments be evaluated on the basis of contribution to wealth generation and employment creation. Cabinet directed the Economic Recovery Commission, in consultation with Enterprise Newfoundland and Labrador Corporation, to ensure that the evaluation include among other assessment criteria, an assessment of how the zonal board plans to strengthen the role of regional centres as a basis for public services, business development and investment attraction. Departmental officials indicated that the evaluation framework of performance contracts does not include this assessment criterion.

- Cabinet directed the Minister to table performance contracts for each of the zonal boards before the House of Assembly. While performance contracts are on file at the Department, they have not been tabled before the House of Assembly.

- Cabinet also directed the Minister to table annual progress reports on each zonal plan before the House of Assembly. Annual progress reports have not been prepared and tabled before the House of Assembly.

- Cabinet indicated that municipalities should be given an explicit mandate for community economic development, in a manner consistent with the role of the regional economic development boards. Accordingly, Cabinet directed the Department of Municipal and Provincial Affairs to bring forward a draft amendment to the *Municipalities Act* for Cabinet's consideration. The *Municipalities Act* was never amended as directed by Cabinet.

- The SRDA Management Committee, in consultation with regional economic development boards, was directed by Cabinet to consider and explore the establishment of a new mechanism to coordinate activities in conjunction with zonal plans, the Province's Strategic Economic Plan, and federal policies and initiatives and make a recommendation to federal and provincial Ministers. No recommendation has been made to the federal and provincial Ministers. Furthermore, the Department does not have the final approved strategic economic plan on file for each board. However, departmental officials have indicated that the draft strategic economic plans on file are the final approved plans.

- Cabinet directed that the provisional boards are to be enabled to arrange for the facilitation and support from the Canada-Newfoundland Cooperation Agreement on Strategic Regional Diversification (SRDA) for a maximum of six months. All provisional boards were in place for longer than the maximum of six months. Eight of these provisional boards were in place for over a year before being replaced by permanent boards, and as at 31 March 1998, there was one board that was still provisional.

- The Economic Recovery Commission at the time was directed to precisely define each of the zonal boundaries and submit same to Cabinet for formal approval. During our review, we identified a zonal boundary that was not finalized as at 31 March 1998. In addition, the zonal boundaries have never been approved by Cabinet.

2. Cabinet Direction in July 1997

In July 1997, Cabinet provided further direction respecting regional economic development boards' performance contract framework and implementation of strategic economic plans. As part of their direction, Cabinet required the Department of Development and Rural Renewal to establish a communications committee to develop and implement detailed communications plans for each of the 20 strategic economic plans accepted by the federal and provincial governments. The committee was to include representatives from the federal government, Communications and Consultations Branch of Executive Council Secretariat, relevant regional economic development boards, and other government departments, as appropriate. Government officials indicated that this committee was never established.

Recommendation

The Department should comply with Cabinet directives.

Performance Contracts

The Task Force on Community Economic Development recommended a new approach to structuring regional economic development which they defined as "Performance Contracts". It was envisioned that Performance Contracts between the SRDA Management Committee and the Regional Economic Development boards would be the sole mechanism to channel government core funding support to community development organizations within the zones. The contracts would bind government to support the boards in specific ways. They would also bind the boards to fulfil their obligations in the expenditure of funds and the execution of their responsibilities. All parties would be subject to rigorous performance evaluation criteria, specified in the contract and monitored during the life of the contract.

Performance contracts provide for the performance of the following five functions:

- leadership role in the development and implementation of zonal strategic economic plans;
- coordinate business investment and support services;
- provide support to organizations and communities within the zone;
- coordinate all social and economic initiatives relating to regional economic development in the zone; and
- promote public participation and community education.

Performance contracts were to be entered into with each board for the development of regional strategic economic plans during Phase 1 and subsequent to the development of these strategic plans, Phase 2 performance contracts were to be entered into to guide the implementation of the strategic plans.

As at 31 March 1998, our review indicated that:

- 19 boards had a performance contract in place for Phase 1;
- 17 of the 20 boards had completed and submitted their strategic plan; and
- 15 of the 20 boards had entered into a performance contract for Phase 2.

1. Progress Reports

Interim reports are required to keep Government apprised of the progress of the 20 regional economic development boards. Progress reports on Phase 1 are required from the boards at three month intervals. The reports are required to contain updates on board activities, cash flows, project schedules, proposed activities, problem areas and other relevant information relating to Phase 1. Our review indicated that:

- 20 of 76 quarterly progress reports due as of the date of our audit were not submitted at all and departmental tracking reports indicated that of the 56 reports received, 54 were not submitted on time; and
- 55 of 56 reports received were available for our review and we noted that 54 of the 55 quarterly progress reports reviewed did not include all the required information as follows:
    - 49 did not address project schedules;
    - 24 did not address proposed activities; and
    - 17 did not address partnerships and third party relationships.

Progress reports on Phase 2 are required from the boards on a semi-annual basis. Our review indicated that:

- 3 of 30 semi-annual progress reports were not submitted at all and departmental tracking reports indicated that of the 27 reports received, 21 were not submitted on time; and
- 26 of 27 semi-annual progress reports received did not include all the required information as follows:
    - 25 did not address project schedules;
    - 5 did not address proposed activities; and
    - 5 did not address partnerships and third party relationships.

Since reports did not contain all the required information and were not always received, the Department could not adequately monitor all activities of the boards. It was noted that more detailed guidelines were established, in January 1998, for Phase 2 progress reports.

Recommendation

The Department should ensure that relevant information is reported on a timely basis in accordance with the performance contracts.

2. Board Policies

Performance contracts for Phase 1 require the regional economic development boards to develop and submit operational policies relating to conflict of interest, hiring, tendering, benefits, travel, finances and other areas of operation to the governments for approval.

Our review indicated that:

- policy manuals have been submitted for 18 of the 19 boards;
- policy manuals received from 10 of 18 boards did not include all the required information as follows:
    - 5 did not address women's participation; and
    - 5 did not address tendering.

In addition, there are no policies indicating what would happen to assets if the boards were dissolved or what would happen to a board's surplus or deficit.

Recommendation

The Department should ensure that the boards' operational policies are received, reviewed and accepted in accordance with the performance contracts. Guidelines should also be established to determine what is an acceptable policy.

3. Board Financial Statements

Financial reviews of boards' financial statements were required to be completed prior to the issuance of the final Phase 1 instalment and the signing of Phase 2 performance contracts. Our review of departmental files indicated that 18 of 19 financial reviews of boards' financial statements were on file prior to the release of the final Phase 1 payment. Although departmental officials indicated that a review was completed for the remaining board, no evidence of this was provided.

Financial reviews of boards' financial statements were required to be completed prior to the issuance of the final Phase 2 instalment. Of the 15 boards that had progressed to this stage, the financial reviews of their financial statements were on file prior to the release of the final Phase 2 payment.

A review of the financial information contained in departmental files indicated that there was no standard format used for presentation of financial information. This resulted in difficulty in comparing boards, as follows:

- some of the financial statements were audited by private sector auditors, while others were not; and

- some of the financial statements were prepared on an accrual basis, while others were prepared on a cash basis.

The lack of consistency in financial reporting has resulted in the Department not being able to adequately monitor and compare the financial activity of the boards.

Recommendation

Procedures should be in place at the Department to ensure financial statements are properly prepared.

4. Board Activities

To ensure compliance with performance contracts and board policies, the Department should regularly review and monitor the activities of the boards. Our review indicated there were several instances that the Department did not adequately follow up. In particular:

- As a result of ongoing problems with the board responsible for Zone 1, the Management Committee contracted the services of a private sector auditor to conduct an audit of the board. In February 1998, the private sector auditor indicated that management problems existed and identified various expenditures which were not in accordance with the performance contract. In February 1998, the Management Committee indicated in a letter to the board that the board had received $213,800 in public funds, principally to develop a strategic economic plan for Zone 1. These funds have been fully expended, but a completed strategic economic plan had not been received. In addition, departmental officials indicated that the board was requesting additional funding to complete Phase 1. We noted that this situation had not been adequately resolved at the time of our review.

- Correspondence in departmental files relating to the Zone 4 board indicated that the board had recruited for an administrator position but did not conduct interviews. All 18 applications received were screened for educational and work experience requirements. The 18 were narrowed down to a list of 5 candidates. The hiring decision was based on a review of the 5 resumes. Our review of the board's policy manual indicated that interviews are to be held to fill all positions unless written approval from the Federal Government is obtained prior to hiring. There was no evidence on file to determine whether approval was obtained.

- Correspondence in departmental files relating to the Zone 5 board indicated that the board called for bids on a computer system and voted to accept a bid from a company that was owned by the President of the Zone 5 board. The correspondence indicated that the bid was not submitted by the deadline established. Departmental officials informed us that the board indicated that this was a technicality and that the bid was accepted.

Recommendation

The Department should regularly review and monitor the activities of the boards to ensure compliance with performance contracts and board policies.

Department's Response

Introduction

For clarity, a sum of $3.2 million was originally allocated by the SRDA Management Committee to finance the preparation of Strategic Economic Plans for 20 zones (Phase I) and the remainder of the $6.1 million was allocated by the Management Committee to commence the implementation of the plans (Phase 2).

3.7 Monitoring Regional Economic Development Boards

Scope and Objectives

Conclusions:

Reference comments on performance contacts:

It is the intent of the Department to table in the House of Assembly all performance contracts with the Boards as a package once the initial contracts of all Boards for Phases I and II have been reached. This is expected to occur early in 1999. A similar approach is planned in respect of the annual progress reports on the strategic economic plans of each Board. It should be noted in this regard that the first anniversary date of the approval by the Cabinet Committee on Rural Revitalization of any strategic economic plan has not yet been reached for any Board, and hence no annual reports are currently available for tabling in the House of Assembly or otherwise. In this context, the Department is of the view that Cabinet's direction on these matters is being followed.

Reference comments on administrative costs:

The administrative costs of the previous organizational arrangements (which consisted of 58 rural development associations and 17 community futures committees) was in the order of $5.4 million annually. The annual administrative costs of the 20 Regional Economic Development Boards is presently in the order of $3.5 million. Therefore, the financial objectives set by Cabinet have been achieved. Annual savings are in the order of $1.9 million.

Reference next paragraph beginning: "As at 31 March 1998, ...":

Permanent REDBs in zones 20 and 18 were not established until September, 1997 and January, 1998 respectively, which accounts for the Auditor General's observation. The strategic plan for Zone 20 is complete as of December 3, 1998 and the final strategic plan (for Zone 18) is expected early in 1999.

Reference next two paragraphs beginning: "With regard to Zone 1...":

While the Auditor General has identified a number of weaknesses, the overall comment may incorrectly convey the impression that major problems exist across all Boards and that the fundamental accountability structures are not working. While some information from some Boards has not always been received as required, this is the exception rather than the rule. A monitoring and compliance review system for performance contracts with all Boards is now in place and it is this very system which is picking up occasional informational deficiencies for which corrective action is subsequently taken. It is the Department's view that the overall monitoring and compliance systems are operating effectively to enable the Department to determine whether the performance contracts are being properly fulfilled by the Boards.

Findings and Recommendations

Reference paragraph beginning: "The funding for...":

A sum of $3.2 million was originally allocated for the development of SEPs. Additional funding of $2.9 million was duly authorized by the SRDA Management Committee to commence the implementation phase of SEPs.

Reference next paragraph beginning: "The primary purpose...":

The overrun of $426,557 represents 13.3% of the budget for Phase I. This is modest overall, especially when viewed in the context of a major new approach to regional economic development that was without precedent and which required, with the benefit of hindsight, more time to complete than originally projected. All funding requests for additional resources were carefully reviewed and all increases provided were properly and duly authorized by the SRDA Management Committee within available global budgets. As of December 3, 1998, only one strategic plan remains outstanding, and that particular Board (Zone 18) was not permanently established until January of 1998. The *average time required by all other Boards to complete their strategic plans was in the order of twelve months.*

Reference next paragraph beginning: "Phase 2 involves...":

This information is correct. These amounts were duly authorized by the SRDA Management Committee, and the overall costs are significantly below the previous costs associated with maintaining the former regional development organizations.

Reference next paragraph beginning: "In addition to the funding..":

All funding provided to the provisional boards was reviewed carefully as to need and merit, and was properly and duly authorized by the SRDA Management Committee. A 7.0 % increase in the original overall budget was deemed necessary to accommodate longer than anticipated timeframes to create permanent Boards in some zones.

Reference next paragraph beginning: "At the time of our review ...":

In regard to policy for the development, negotiation, monitoring and control of REDB operating budgets, the following pertains:

1. Pursuant to the Phase II performance contract, the Department, in partnership with ACOA, has developed and implemented a policy and administrative regime for negotiating and renewing the annual core operating budgets of all REDBs. A floor budget requirement was established for all REDBs. Through a process of negotiation with each Board, additional financial resources are allocated to reflected differences in travel and communications costs affected by the geography and population within each zone.

2. Upon submission of a budget proposal from each Board, an SRDA analytic team consisting of two Departmental staff and one ACOA staff person, reviews the budget proposal and meets with the Board to negotiate a budget. Upon completion of discussions the analytic team makes a recommendation to the SRDA Management Committee, which exercises final authority for approving the REDB budget.

3. All Phase II performance contracts require the submission of semi-annual progress reports, including financial statements prepared by the Boards, and financial reviews conducted by Departmental staff. The financial statements by REDBs, and financial reviews by Departmental staff must demonstrate that the Board has spent SRDA operational funds on eligible expenditures, as defined in Appendix IV of each Phase II performance contract. These requirements have been met since the beginning of the process. The SRDA Management Committee does not approve and advance semi-annual progress payments until this documentation is received, and a recommendation to release further funding is made by Departmental staff.

The above procedures were put into place from the outset of Phase II performance contracts. Specific guidelines for the financial reviews to be conducted by Departmental staff were not available for the first year of Phase II operations, but were developed and implemented in July, 1998.

On the matter of the lack of well defined policies on zonal budgets, we wish to point out that the SRDA Management Committee has provided policy direction concerning REDB operating budgets. Guidelines were developed and approved to guide the negotiation of Phase II budgets with each REDB. The initial target was to conclude all negotiations within a global budget of $3 million annually. The SRDA Management Committee subsequently recognized that this level of funding would be inadequate, and set a global budget of $3.5 million annually.

3.7 Monitoring Regional Economic Development Boards

Recommendation

Reference paragraph beginning "The Department should ensure...":

The Department concurs and is of the view that such policies and procedures are currently in place and functioning effectively.

Government Direction

1. Cabinet Direction in January 1995

Reference paragraph beginning: "All boards were required...":

While no formal external evaluation was undertaken to determine savings from the creations of the 20 Zone Boards, the aggregate administrative costs of the new Boards, at $3.5 million annually, are substantially less than the $5.4 million annual administrative cost of the former organizational arrangements to the 58 Rural Development Associations and the 20 Community Futures Committees. Hence, the financial objective set by Cabinet has been met and there is no need to undertake any formal external evaluation.

Reference next paragraph beginning: "Cabinet directed that...:

The six-month timeframe was designed to provide continuity during the transition process. It was originally projected that all permanent Boards could be operational within six months of the process commencing, but this proved unrealistic in all cases given the magnitude and scope of changes involved. Accordingly, the SRDA Management Committee authorized additional transitional timeframes and resources within the context of available global budgets. The alternative would have been to terminate an orderly transition prematurely, which would have compromised the overall policy objectives.

Reference next paragraph beginning: "The Task Force recommended ...":

The existing evaluation framework for the first generation performance contracts does not include the noted assessment criteria, but it is intended to include them in the second generation contracts as the Board's mature in their ability to action this aspect of their mandate.

Reference next paragraph beginning: "Cabinet directed the Minister ...":

It is the intent of the Department to table in the House of Assembly all performance contracts of the Boards as a package once the initial contracts with all Boards for Phases I and II have been reached. This is expected to occur early in 1999.

Reference next paragraph beginning: "Cabinet also directed...":

Annual progress reports on each zonal plan are not due from the Boards until twelve months following their approval by Government. The first anniversary date has not yet been reached by any Board. Accordingly, by definition, the annual reports on the zonal plans are not yet available for presentation to the House of Assembly.

Reference next paragraph beginning: "Cabinet indicated...":

It remains the intent of Government to take such action at the appropriate time with the support of all municipalities.

Reference next paragraph beginning: "The SRDA Management...":

The federal and provincial governments, in association with all REDBs, have been working toward the establishment of a Canada-Newfoundland and Labrador Business Service Network for the Province over the past year or so. A formal MOU between the two levels of government on this initiative has recently been approved which will see the formation of new business service partnerships in each of the 20 economic zones.

These partnerships will serve to coordinate federal, provincial and community based business support services in each zone and provide "single window" access to such services in each zone. This will constitute the most progressive approach to the coordination of federal, provincial and community based economic development and business support activities in the country. Cabinet's earlier policy direction has been implemented through this new initiative.

On the matter of final approval of economic plans, the final strategic economic plans for each zone, as approved by the Cabinet Committee on Rural Revitalization, are on file in the Department. All zonal plans were submitted by the Boards as "drafts" but became "final" upon approval by the Cabinet Committee on Rural Revitalization.

Reference next paragraph beginning: "Cabinet directed that the provisional...":

The extensive work required by provisional boards took longer than originally anticipated. Accordingly, the SRDA Management Committee authorized extensions to the six month period on a case-by-case basis within the context of available global budgets. As a new community consensus building process that was charting unprecedented directions, it was deemed to be important to provide more flexibility on the timeline for undertaking the work rather than forcing the issue and risking the entire foundation for subsequent phases of this new approach to regional economic development. The final permanent board (Zone 18) was established in May 1998.

Reference next paragraph beginning: "The Economic Recovery Commission...":

The boundaries of all zones were reviewed as part of the provisional board process and could not be finalized for the entire Province until the last permanent board was established, which was not until January of 1998. In that particular case, as well, significant inter-zonal boundary issues emerged that were not fully resolved until the Fall of 1998. The Minister of Development and Rural Renewal reviewed all zonal boundaries as they were presented by the Boards, and it is now intended to present the entire package to Cabinet for formal ratification.

2. Cabinet Direction in July 1997

Reference paragraph beginning: "In July 1997...":

While the full committee has not yet been formally established, work has been initiated on this communications program through the representatives of the noted agencies and implementation has commenced. This is an evolutionary process that will mature and become more formalized as individual REDB strategic communication capabilities improve over time and as REDBs advance the implementation of their plans. It is also intended to build this communications activity into the next round of performance contracts with all REDBs. An overall communications framework for REDB strategic economic plans has recently been developed to guide this activity and is being actively pursued with all REDBs.

Recommendation

Reference the sentence "The Department should comply with Cabinet directives.":

The Department considers its actions and plans to be consistent with Cabinet's direction on the overall REDB initiative, noting that immediate and simultaneous action on all aspects of the Task Force Report on Community Economic Development is not feasible or practical.

Performance Contracts

Reference section beginning" "The Task Force on...":

As at December 3, 1998, all 20 Boards had a Phase I performance contracts in place, 19 of 20 had completed and submitted strategic economic plans, and 17 of 20 had entered into a performance contract for Phase II.

3.7 Monitoring Regional Economic Development Boards

1. Progress Reports

Reference paragraph beginning: "20 of 76 quarterly...":

For Phase I, the Management Committee allowed some flexibility in the number and timing of written progress reports depending on individual circumstances and subject to satisfactory evidence that adequate progress in fulfilling its obligations was available. With the benefit of hindsight, quarterly reporting during Phase I was too onerous on Boards and did not materially add value to the accountability framework. A semi-annual reporting system would have been sufficient and this, in practical terms, is what evolved over time for most Boards as duly authorized by the Management Committee. The main purpose of this phase was to ensure that the Boards developed strategic economic plans, consistent with the goals of the Task Force report. In Phase II, the requirement is for semi-annual reports and this has been more rigidly enforced.

Reference section beginning: "55 of 56 reports...":

During Phase I, REDBs were almost exclusively occupied with the development of strategic economic plans. Consequently, activities in each of the three areas listed above were negligible or minimal for the most part. There was no need to report on issues or activities which were not applicable.

Reference paragraph beginning: "3 of 30 semi-annual...":

The Department acknowledges that during the first year of Phase II contracts many REDBs did not submit their semi-annual reports within thirty days of completion of their reporting periods. This is not viewed as a major issue by the Department because our ongoing monitoring by field staff is designed to immediately identify any problem areas and no problems were identified in the cases cited. It should also be noted that no funding was advanced prior to these reports being submitted.

Reference paragraph beginning: "26 of 27 semi-annual...":

While progress reports may not have had specific subtitles or headings on these three types of activity, this information is provided through reports on activities under the five core functions of REDBs and is reviewed carefully by the Department.

Reference paragraph beginning: "Since reports did not...":

The Department considers the Auditor General's comment/conclusion to be an overgeneralization, particularly in light of the Department's comments directly above. While some informational deficiencies exist from time to time in the progress reports, the semi-annual reports are sufficiently comprehensive and extensive in nature to allow the Department, in its judgement, to adequately monitor the activities of all boards. As well, where sufficient information is not forthcoming in any individual circumstance, the accountability process ensures that the necessary corrective action is taken and no further funds are advanced until the situation is satisfactorily addressed. It should also be noted that the semi-annual reports represent just one management tool for monitoring REDB activities. Departmental staff are in regular contact with all REDBs and monitor their activities continuously through these interactions.

Recommendation

Reference sentence: "The Department should ensure..."

The Department is satisfied that the reporting requirements of REDBs are being adequately met in general and that, where particular deficiencies exist appropriate corrective action is taken consistent with the established performance contracts and associated accountability framework. Furthermore, procedures are in place to ensure that all documentation is received and reviewed prior to the release of core funding progress payments.

2. Board Policies

Reference paragraph beginning: "Performance contracts for Phase I..."

Some REDBs have dealt with women's participation in their bylaws. Where this is the case it is not necessary to deal with this issue in the Policy Manuals. Also, Section 13.5 of the performance contract deal with tendering. The Boards which did not cover these matters in their policy manuals felt that the coverage in the performance contract and/or bylaws was sufficient and the SRDA Management Committee is satisfied with this approach. Accordingly, it is the Department's view that the substantive matters to be covered have been fully and adequately addressed.

With reference to the comment on disposal of assets, the disposition of REDB financial and capital assets in the event of dissolution is dictated by the Corporations Act. This issue will be reviewed further by the Department to ensure the public interest is adequately protected, given that the Boards received their core funding needs from the federal and provincial governments.

Recommendation

Reference sentence beginning: "The Department should ensure...":

All REDBs which have completed Phase 1 have submitted policy manuals. These have been reviewed and, where appropriate, there has been follow-up communication with individual REDBs to ensure they are in accordance with the performance contracts. The Department will review this matter further to determine whether formal guidelines are necessary to assist in determining what is an acceptable policy.

3. Board Financial Statements

Reference section beginning "Financial Reviews of Boards'...":

The financial statements submitted by Boards are complete in every case and are reviewed in detail by the Department. The objective is to ensure that proper accountability for the expenditure of public funds on eligible activities is achieved in accordance with the performance contract. This is occurring as designed. The Department does not believe that conformity of presentation of all financial statements is necessary vis-a-vis the exercise of effective financial controls and monitoring of individual Board expenditures. In the Department's view, adequate procedures are well established within the Department to ensure financial statements are properly prepared.

4. Board Activities

Reference paragraph beginning: "As a result of ongoing...":

The Department and the SRDA Management Committee have been vigilant in following up on the difficulties being experienced by this Board. This is well documented in the Department and is acknowledged by the Auditor General in an earlier section of the report. While satisfactory resolution has yet to be achieved, further actions are planned to address it in the context of the accountability framework established in the performance contract. In the interim, no further funds have or will be advanced to the Board.

Reference next paragraph beginning: "Correspondence in...":

Departmental records on this issue include correspondence from the Zone 4 Board indicating why interviews were not judged appropriate in this instance. The records indicate a very short time frame for hiring to meet a specific contractual obligation, and the impracticality of bringing members of the Hiring Committee, who reside in isolated coastal communities, together for interviews. An alternative procedure involving *members of the Hiring Committee independently assessing each candidate's resume against a standardized set of criteria was employed and duly authorized by the Board. The Department's monitoring system picked up this matter, which was subsequently addressed by the Board in an appropriate manner.*

Reference next paragraph beginning: "Correspondence in...":

The Board made a conscious, formally documented decision to allow tender bids which did not arrive as requested owing to a mail strike. The Department's monitoring system picked this matter up, and the Department was satisfied with the explanation and actions taken by the Board. It is also noted that the successful bidder was the low bid received.

Recommendation

Reference sentence beginning: "The Department should regularly...":

The Department concurs and is of the view that this is already being carried out in an effective manner.

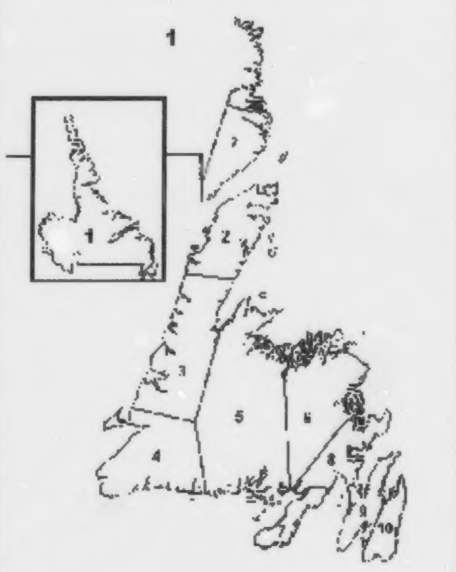
3.8 Transfer of School Board Assets and Liabilities

Introduction

On 1 August 1996, in accordance with subsection 4(1) of the amended *Schools Act*, the Lieutenant-Governor in Council established 10 school districts under the *Boundaries of School Districts Order*. The existing 27 school boards continued to exist and administer the schools within their jurisdiction until their dissolution on 31 December 1996. As at 31 December 1996, there were approximately 445 schools in the Province with a total enrolment of 110,450 students. Figure 1 provides a profile of the 10 school districts for the 1997-98 school year and the number of schools and students within each board. As the figure indicates, the number of schools and student enrolment have declined.

Figure 1

Department of Education
School District Profile
1997-98



District #	School District	# of	
		Schools	Students
1	Labrador	20	5,764
2	Northern Peninsula\Labrador South	34	3,923
3	Corner Brook\Deer Lake\St. Barbe	36	8,999
4	Stephenville\Port aux Basques	36	7,166
5	Baie Verte\Central\Connaigre	56	10,014
6	Lewisporte\Gander	41	9,795
7	Burin Peninsula	21	5,244
8	Clarenville\Bonavista	19	5,144
9	Avalon West	46	12,061
10	Avalon East	82	33,498
	Total	391	101,608

Source: Department of Education's *Education Statistics 1997-98*

As at 31 December 1996, the former school boards and student transportation committees reported approximately $647 million in assets, $41 million in liabilities and $606 million in equity. The majority of these assets, liabilities and equity balances were transferred over to the 10 new district boards based upon the number and location of former schools within a certain school district.

Figure 2 provides a summary of Provincial funding for the operation of school boards.

Figure 2

Department of Education
Provincial Funding
School Board Operations
31 March
($000)

Provincial Funding	1996		1997		1998	
	Revised Budget	Actual	Revised Budget	Actual	Revised Budget	Actual
Teaching Services	$ 357,637	$ 370,224	$378,667	$ 378,987	$ 338,512	$ 338,516
Operating Grant	92,976	128,165	87,425	132,870	84,126	127,948
Student Assistants	6,555		6,700		6,903	
Substitute Teachers	10,540		9,491		9,414	
Student Transportation	29,705		26,966		27,812	
Debt Expenses	1,800		2,146		-	
Total	$ 499,213	$498,389	$511,395	$ 511,857	$ 466,767	$ 466,464

Source: Government Estimates and Public Accounts

Scope and Objectives

In 1998, we completed a review of the transfer of assets and liabilities of the former school boards to the 10 district school boards. We conducted our review to determine whether the transfer of assets and liabilities from the former school boards to the district boards was timely, complete and appropriate. In performing this review we also examined the financial position of the boards before and after amalgamation. In addition we reviewed expenditures to assess whether liabilities had been increased or assets reduced by inappropriate transactions during the transition period represented by the last six months of the former boards' operations (1 July 1996 to 31 December 1996) and the first six months of district boards' operations (1 January 1997 to 30 June 1997). We also reviewed the Province's payments to the district boards for debt reduction and deficit control to determine whether they were equitable and used for their intended purposes.

Our review included an examination of 4 school district boards and their 12 former school boards and 2 bussing committees. Figure 3 provides a summary of the boards we examined and how they were restructured.

Figure 3

Department of Education
School Boards Reviewed
31 December 1996

District School Board	Former School Board	Schools Transferred	Students Transferred	Assets Transferred
#1 - Labrador	Labrador West Integrated	3	1,362	$10,014,095
	Roman Catholic- Labrador	8	2,307	12,995,763
	Labrador East Integrated	11	2,260	18,616,362
	Pentecostal Assemblies	1	54	-
	Labrador West School Bus Committee	-	-	-
	Less: Jointly-operated Schools	(1)	-	-
	Total	22	5,983	$41,626,220
#6 - Lewisporte/Gander	Nova Consolidated	27	6,399	$50,030,352
	Roman Catholic - Gander-Bonavista-Connaigre	9	970	13,527,503
	Notre Dame Integrated	12	2,209	14,595,091
	Roman Catholic - Exploit's-White Bay	1	67	-
	Pentecostal Assemblies	6	1,410	-
	Norpen School Bus Committee	-	-	3,923,535
	Less: Jointly-operated Schools	(9)	-	-
	Total	46	11,055	$82,076,481
#9 - Avalon West	Western Avalon Roman Catholic	27	6,072	$34,088,592
	Avalon North Integrated	32	7,107	39,720,433
	Pentecostal Assemblies	2	183	-
	Seventh Day Adventist	1	10	-
	Less: Jointly-operated Schools	(2)	-	-
	Total	60	13,372	$73,809,025
#10 - Avalon East	Avalon Consolidated	26	10,663	$59,097,684
	Conception Bay South Integrated	9	3,407	17,998,743
	Roman Catholic - St. John's	38	18,423	21,880,076
	Roman Catholic - Ferryland	10	1,752	8,733,351
	Pentecostal Assemblies	2	752	-
	Seventh Day Adventist	2	152	-
	Total	87	35,149	$107,709,854

Source: Department of Education's Budget Information and School Board Audited Financial Statements

3.8 Transfer of School Board Assets and Liabilities

Conclusion

Our review of four new school boards and their predecessor boards identified numerous payments which contravened legislation, cabinet direction, ministerial direction and government policy. Given the financial needs of the education system for education-related expenditures which cannot be met by current funding levels, expenditures such as these should not be made. The Department should take steps to recover these payments.

Findings

Our review of four new school boards and their predecessor boards as outlined in Figure 3 identified the following:

1. Financial Assets and Liabilities of the New Boards

The assets and liabilities as reported in the financial statements of the former boards that we reviewed were properly recorded in the accounts of the four current boards that we reviewed.

2. Inadequate Control Over Trust and Ancillary Funds

There is a lack of control and accountability by the boards and the Department of Education over various types of trust and ancillary funds such as donations, scholarships, canteen sales and fund raising events. Neither the Department of Education nor the current boards have adequate policies for monitoring and controlling trust funds, including school-based funds.

We found two instances where trust funds were not transferred to the new district boards. In District #10, assets of $573,000 described by the Avalon Consolidated School Board as "trust funds" in its 30 June 1996 financial statements were transferred to private trustees in November, 1996, rather than being transferred to the current board, and are still being held outside the current school board.

Of these assets, $293,502 as of 30 June 1996, consists of moneys received by the Avalon Consolidated School Board from the Trustee of the Pitts Estate Charitable Trust which was required to be paid to the Avalon Consolidated School Board for "its general educational purposes" by an Order of the Supreme Court of Newfoundland made in 1985. This was the result of an action taken by Avalon Consolidated School Board in 1979 against the United Church of Canada and the Newfoundland Conference of the United Church of Canada. This action was taken by the former school board claiming sole entitlement to the accumulated income and profits and the annual income and profits thereafter.

An amendment to the *Schools Act* in force 19 August 1996, provides that *"upon the dissolution of a school board, the successor board is the successor in law to the dissolved school board and title to all real and personal property of a dissolved school board is vested in the successor board and for all real and personal property held or used for the purpose of education by a dissolved school board, the successor board shall be substituted for the dissolved school board in respect of any entitlement, interest, instrument deed, contract, agreement or other document held by the dissolved school board with respect to that property".* The same provision appears in the *Schools Act, 1996* in force 3 January 1997. Neither the current Board nor the Department of Education challenged the right of the former Board to transfer the control of these assets to private trustees.

Subsequent to the transfer of control of the $573,000 of assets referred to previously, the current Board was paid $110,599 from the Pitts fund by the private trustees to partially reimburse the current Board for the payment by it of enhanced severance packages to two employees of the former board whose positions had been made redundant. If the Pitts fund was appropriately withheld from the control of the current Board (which in my opinion it was not) it should not have been used for payment of enhanced severance packages.

We also identified an instance in District #9 where a trust fund totalling $81,262 and a canteen sales fund totalling $256,855 were recorded on the financial statements of a former board but only the trust fund of $81,262 was reported on the financial statements of the current Board.

3. Inadequate Control Over Capital Assets

On dissolution of the former boards, a large number of moveable assets such as computer hardware and software, photocopiers, desks, filing cabinets and video equipment were transferred to different board offices and schools. However, none of the boards reviewed could demonstrate that these capital assets were properly accounted for since there were no capital asset ledgers or listings of these assets.

4. Financial Position

School board revenues for the 1996-97 school year declined by $30.2 million while expenditures declined by $28 million. The largest decline in revenue was for provincial operating grants while instructional expenditures showed the largest decline in expenditure. Figure 4 provides a comparison of the financial results of the 27 former school boards and the 10 new school boards.

Figure 4

Department of Education
School Boards
Comparison of Financial Operations
For the Period Ended
($ 000's)

Financial Item	Current Boards 1 January 1997 - 30 June 1997	Former Boards 1 July 1996 - 31 December 1996	Total 1996-97	Former Boards 1995-96	Variance Increase(decrease)	
					Amount	%
Revenue						
Government Grants	$ 251,285	$ 237,172	$ 488,457	$ 518,317	$ (29,860)	(5.8)
Interest Income	25	71	96	226	(130)	(57.5)
Ancillary Services	509	795	1,304	1,732	(428)	(24.7)
Miscellaneous Revenue	4,772	4,872	9,644	9,436	208	2.2
Total Revenue	256,591	242,910	499,501	529,711	(30,210)	(5.7)
Expenditure						
Administration	8,392	7,400	15,792	18,730	(2,938)	(15.7)
Instructional	199,633	199,903	399,536	424,213	(24,677)	(5.8)
Operations & Maintenance	25,540	23,009	48,549	48,391	158	0.3
Pupil Transportation	19,203	10,857	30,060	29,270	790	2.7
Ancillary Services	180	399	579	490	89	18.2
Miscellaneous	68	231	299	615	(316)	(51.4)
Debt Repayment	990	1,068	2,058	3,132	(1,074)	(34.3)
Total Expenditure	254,006	242,867	496,873	524,841	(27,968)	(5.3)
Excess of Revenue over Expenditure	2,585	43	2,628	4,870	(2,242)	
Transfer to Capital	(2,920)	(2,071)	(4,991)	(3,857)	(1,134)	
Increase (decrease) in Equity	$ (335)	$ (2,028)	$ (2,363)	$ 1,013	$ (3,376)	

Source: School Boards' Audited Financial Statements

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Source: School Boards' Audited Financial Statements

Three of the four boards that we reviewed had favourable financial positions as at 30 June 1997 while District #1 was in a poor financial position. From January 1997 to June 1997, District #1 incurred expenditures in excess of its budget and reported a deficit of $467,504. As at 30 June 1997, that Board's bank indebtedness had increased to $904,440 from $187,401 as at 1 January 1997.

5. Executive Salaries Not in Accordance With Cabinet Direction

The Minister of Education communicated approved salary scales to the district school boards on 25 October 1996 and at that time indicated that the boards did not have the authority to "top up" the approved salaries. However, in a letter dated 15 November 1996 to the executive director of the Newfoundland and Labrador School Boards' Association, the Minister provided flexibility to the boards in placing executive staff at a step on the approved scale not in excess of step 25 as long as the boards had other funds to pay these salaries.

Our review indicated the following salary top-ups were provided to executive staff and which resulted in salaries that exceeded the salary levels approved by Cabinet

District #1	$ 62,323
District #6	22,857
District #9	24,502
District #10	52,822
	$ 162,504

District #1 and District #10 provided salaries to their executives above step 33. Effectively the salaries of these executives are off the salary scale. In District #10, the top-ups provided to executive staff were a combination of several compensation items as follows:

Payment of old salary bonuses already included in new salary	$11,686
Salary top-ups	41,136
	$52,822

6. Records of Former Boards Not Properly Stored

There are no Departmental or board policies for the retention and safeguarding of former board records. In District #1 and District #10, the records of former boards were not properly stored. As a result, it is difficult for the boards to provide a complete record of former board activities and transactions.

7. Compensation to Board Members Not in Accordance With Government Policy

The *Schools Act, 1997* and predecessor Acts state that board members shall serve without remuneration. District #1 reimbursed its board members a total of $7,800 in lost wages from February 1997 to February 1998.

8. Redundancy Pay Not Within Government Policy

The current and former boards reviewed made expenditures that were not in accordance with Government policy or the *Schools Act, 1997* or its predecessor Act. These expenditures included excess termination benefits and contract settlements of $144,946 as follows:

District #1	$ -
District #6	2,347
District #9	12,000
District #10	130,599
	$ 144,946

Our review also indicated that District #6 did not reduce employees' salaries when the employees accepted a voluntary demotion after their positions were made redundant. Government policy requires that employees' salaries be reduced in instances where they accept voluntary demotion. The Board has acknowledged this and has a plan to reduce the employees' salaries over a five year term. The cost to the Board over the next five years will be $29,814.

9. Unused Vacation Pay Not in Accordance With Government Policy

Former boards absorbed by District #6, District #9 and District #10 made payments for unused vacation days to employees who were not declared redundant and who are still employed with the school board. District #6 boards made payments totalling $12,599, District #9 boards made payments totalling $62,711 and District #10 boards made payments totalling $16,252 to one employee and $8,126 to each of three others.

10. Vacation Paid to Redundant Employees Not in Accordance With Minister's Direction

The Department of Education directed that school boards were only to pay up to 50 days of unused vacation leave. One former board absorbed by District #9 paid one of its redundant assistant superintendents $8,755 for 33 unused vacation days in addition to the maximum of 50 days paid by the Department of Education. A former board absorbed by District #10 paid two employees $16,792 for unused vacation days in addition to the maximum of 50 days paid by the Department of Education.

11. Vehicle Allowance Not Within Government Policy

The *Schools Act, 1996* required boards to adopt personnel policies consistent with Government policy. Government policy provides for a monthly car allowance of $85. School boards paid excess car allowances totalling $55,000 as follows:

	Current Boards	Former Boards	Total
District #1	$ 720	$14,418	$15,138
District #9	913	20,705	21,618
District #10	4,661	13,560	18,221
	$6,294	$48,683	$54,977

Although the current boards paid excess vehicle allowances, District #9 and District #10 are now paying allowances in accordance with Government policy. However, we are not aware of any recoveries being made on the excess payments.

12. Board Dinners and Gifts

The former boards reviewed spent and the four current boards that we reviewed continue to spend monies on expenditures such as Christmas parties, retirement dinners and gifts, for which there is no authority under the *Schools Act, 1997* or predecessor Acts. The former boards spent approximately $60,000 from 1 July 1996 to 31 December 1996 and the current boards examined spent approximately $37,000 from 1 January 1997 to 30 June 1997.

13. Monies Owed by Staff

As at 31 March 1998, a senior employee of District #9 owed a total of $40,587 to the school board and the Department of Education. This amount consisted of $8,973 owing to the Board for cash advances, $21,800 owing to the Board for redundancy pay repayment and $9,814 owing to the Department of Education for redundancy pay repayment. No interest is being charged by the Department or the current Board.

As at 30 June 1997, $4,540 was owed by employees in District #1 relating to a former board's purchase of computers on behalf of these employees.

In District #10, payments on corporate credit cards for travel and entertainment are recorded as accounts receivable until staff provide a travel claim or direction to accounting staff as to where the expenditure should be charged. Controls over these accounts receivable are not adequate.

14. District #10

Our review of District #10 identified several expenditure items which were of particular concern.

In May 1996, an executive of a former board received a payment of $42,555 as compensation for 2/3 of unused accumulated education leave. This employee is still employed with the Board. There is no policy which permits a payment of this nature.

In May 1996, a second executive of a former board received a payment of $16,252 as compensation for 2/3 of unused annual leave over 50 days. This employee is still employed with the Board. There is no policy which permits a payment of this nature.

15. Credit Cards

I am concerned about payments made on corporate credit cards.

For the period January 1997 to June 1998, District #10 paid $30,529 charged to two employee corporate credit cards of which only $4,491 was supported by receipts. Of the $4,491 supported by receipts, $699 was for personal expenses charged to these cards and paid by the current Board.

In District #9, personal expenditures were being charged to corporate credit cards. Our review identified $1,367 charged as personal items to the current Board's corporate credit cards.

In most instances, personal credit card transactions were recovered; however, some were outstanding for extended periods of time.

16. Debt Service Payment Grants

The Province paid the 10 district boards $24,245,700 for debt service costs, pupil transportation expenditures and deficit refinancing. Our review identified that grants were expended by the district boards as intended; however, the funding allocation for deficit refinancing grants of $2.8 million was not equitable. Details of this funding is provided in Figure 5. The grants to cover former board deficits existing at 30 June 1996 were allocated to the current boards in accordance with the number of schools the current board absorbed from a previous board. However, on dissolution of the boards on 31 December 1996, the actual surpluses and deficits of the former boards did not follow the distribution of the schools but went in total to a particular board. As indicated in Figure 5, three current boards were underfunded for the deficits by approximately $385,000 and therefore commenced its operations with an overall deficit.

Figure 5

Department of Education
District School Boards
Deficit Funding
April 1997

District #	Actual Deficit Funding	Deficit Funding Based Upon 31 December 1996 Equity Transfer	Funding Shortfall
#1	$ -	$ -	$ -
#2	-	-	-
#3	1,153,000	1,448,100	(295,100)
#4	-	-	-
#5	-	-	-
#6	-	-	-
#7	737,100	745,400	(8,300)
#8	-	-	-
#9	-	-	-
#10	871,000	952,400	(81,400)
Total	$ 2,761,100	$ 3,145,900	$ (384,800)

Summary

Figure 6 outlines a summary, by board, of the more significant issues that were identified during our review of the four district school boards.

3.8 Transfer of School Board Assets and Liabilities

Figure 6

District School Boards
Summary of Significant Issues

		District #1	District #6	District #9	District #10
1	Financial assets and liabilities properly reported in new board	Yes	Yes	Yes	Yes
2	Adequate control over trust and ancillary funds e.g. donations, fund raising, canteen operations	No	No	No	No
3	Adequate control over capital assets	No	No	No	No
4	Favourable financial position as at 30 June 1997	No	Yes	Yes	Yes
5	Executive salaries in accordance with Cabinet direction	No	No	No	No
6	Records of former boards properly stored	No	Yes	Yes	No
7	Compensation to board members in accordance with Government policy	No	Yes	Yes	Yes
8	Redundancy pay within Government policy	Yes	No	No	No
9	Unused vacation paid in accordance with Government policy	Yes	No	No	No
10	Vacation paid to redundant employees in accordance with Minister's direction	Yes	Yes	No	No
11	Vehicle allowances paid within the limits set by Government policy	No	Yes	No	No
12	Expenditures for dinners and gifts	Yes	Yes	Yes	Yes
13	Monies owed by staff	Yes	No	Yes	Yes

Department's Response

Adequate Control Over Trust Funds and Ancillary Funds

We will pursue, with the Chairperson of School District #10, the management and reporting of the trust fund referenced in your report. In regards to other ancillary funds, we will undertake to ascertain the materiality of the amounts involved. If significant, we will, in consultation with school board personnel, develop an appropriate accounting and reporting policy.

Adequate Control Over Capital Assets

Even though we concur with your finding and recommendation, this deficiency in properly controlling and accounting for capital assets is prevalent in government agencies as well as government departments. Capital assets should be controlled; however, due to limited human and financial resources this has been difficult.

Executive Compensation and Other Monetary Benefits

This particular issue was of such major concern to the Department that we engaged external consultants to undertake an independent review of all school boards. Based on their findings, we broadened the scope of their review for School Districts 9 & 10. In response to the overall findings, the Department is satisfied with the action taken with respect to board districts one through eight. We have initiated further discussions and exchanged correspondence with the Chairpersons of Districts 9 & 10. We hope that action will be taken to resolve this matter to the Department's satisfaction. A copy of the external consultants reports was provided to you.

Use of Public Monies for Board Dinners and Gifts

We concur that this is contrary to government policy. This was brought to the attention of several boards in the past. We will do so again. We will also arrange for boards to be on the mailing list for government management policy and accounting directives, etc.

Credit Cards

We concur that all purchases using a board's credit card have to be substantiated with supporting documents, in line with Government policy. We will raise this matter with the board concerned.

3.8 Transfer of School Board Assets and Liabilities

Debt Service Payment Grants

In some instances, the surplus (deficit) of former school boards was not distributed as anticipated with the dissolution of the boards. Consequently, this affected the opening equity position of some of the successor boards. The Department was aware of these instances and has been working with those boards affected to resolve the matter.

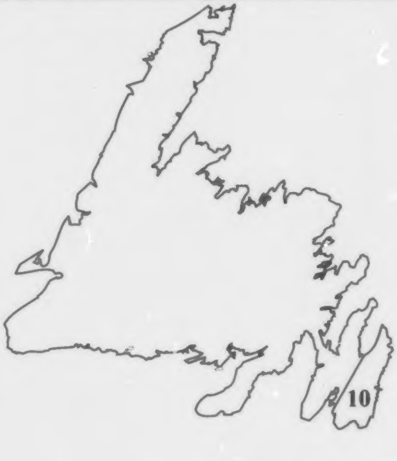
3.9 District #10 - Avalon East School Board

Introduction

The District # 10 - Avalon East School Board (the Board) serves the eastern half of the Avalon Peninsula, from Holyrood, south to Peter's River and east. The current Board was created in 1996 and absorbed the schools served by the Avalon Consolidated School Board, the Roman Catholic School Board of St. John's, the Roman Catholic School Board of Ferryland, the Conception Bay South Integrated School Board, and two schools under each of the Pentecostal Assemblies Board of Education and the Seventh Day Adventist School Board. Upon its establishment, there were approximately 35,000 students in 85 schools with school enrolments ranging from 7 to 1,327. Figure 1 provides some general information regarding the school district.

Figure 1

District #10 - Avalon East School Board
District Profile
1996-97



District #10 Statistics

Board Office:	St. John's
Number of Schools:	85
Number of Students:	34,348
1996-97 Expenditures:	$135.4 million

Scope and Objectives

We conducted our review to determine whether the transfer of assets and liabilities from the former school boards to the current Board was timely, complete and appropriate. In performing this review we examined the financial position of the boards before and after amalgamation. In addition we reviewed expenditures to assess whether liabilities had been increased or assets reduced by inappropriate transactions during the transition period represented by the last six months of the former boards' operations (1 July 1996 to 31 December 1996) and the first six months of the current Board's operations (1 January 1997 to 30 June 1997).

Conclusions

Transfer of Assets and Liabilities

Assets of $573,000 described by the Avalon Consolidated School Board as "trust funds" in its 30 June 1996 financial statements were transferred to private trustees in November, 1996, rather than being transferred to the current board, and are still being held outside the current school board.

Of these assets, $293,502 as of 30 June 1996, consists of moneys received by the Avalon Consolidated School Board from the Trustee of the Pitts Estate Charitable Trust which was required to be paid to the Avalon Consolidated School Board for "its general educational purposes" by an Order of the Supreme Court of Newfoundland made in 1985. This was the result of an action taken by Avalon Consolidated School Board in 1979 against the United Church of Canada and the Newfoundland Conference of the United Church of Canada. This action was taken by the former school Board claiming sole entitlement to the accumulated income and profits and the annual income and profits thereafter.

An amendment to the *Schools Act* in force 19 August 1996, provides that *"upon the dissolution of a school board, the successor board is the successor in law to the dissolved school board and title to all real and personal property of a* *dissolved school board is vested in the successor board and for all real and personal property held or used for the purpose of education by a dissolved school board, the successor board shall be substituted for the dissolved school board in respect of any entitlement, interest, instrument deed, contract, agreement or other document held by the dissolved school board with respect to that property".* The same provision appears in the *Schools Act, 1996* in force 3 January 1997. Neither the current Board nor the Department of Education challenged the right of the former Board to transfer the control of these assets to private trustees.

Subsequent to the transfer of control of the $573,000 of assets referred to previously, the current board was paid $110,599 from the Pitts fund by the private trustees to partially reimburse the current board for the payment by it of enhanced severance packages to two employees of the former board whose positions had been made redundant. If the Pitts fund was appropriately withheld from the control of the current Board (which in my opinion it was not) it should not have been used for payment of enhanced severance packages.

The current Board paid severance packages of $269,224 to two employees of a former board, which were $110,599 in excess of the payments prescribed by government rules. These payments had been approved by the current Board only on the condition that the Minister of Education also approve them, and the Minister in fact refused such approval. Furthermore, these payments were in contravention of the *Schools Act, 1996*. The current Board was reimbursed $110,599 by the private trustees from the Pitts fund three months after the payments were made.

We are very concerned over the lack of control and accountability by the current Board and the Department of Education over various types of ancillary funds including canteen sales, fund raising events, donations and scholarships. The current Board, as well as other school boards within the province, do not adequately monitor and control the various school-based funds.

The current Board could not demonstrate whether all capital assets were properly accounted for since there were no listings of these assets. The ownership of schools vested with denominational authorities was still unresolved at the time of our review.

The records of the former school boards were not adequately stored or accounted for. Many of these records were stored at a former board office; however, there was no listing of what was stored or where certain records were located. The storage area was unorganized and different former board records were stored together.

Financial Position

Overall the financial position of the current Board as at 30 June 1997 is favourable compared to the combined former boards' financial position as at 30 June 1996, mainly as a result of the Department's repayment of the former boards' long-term debt. In total, the Board received $11.9 million from the Department of Education to fund its operating deficit and long-term debt. Certain expenditures have also been reduced, especially in the current Board's administration and instructional budgets.

Review of Expenditures

Our review indicated that salaries and other benefits of the executive of the current Board were in excess of the limits established by the House of Assembly under the *Schools Act* and by Cabinet. We found that, during 1997, the executive were overpaid $52,822 in salaries and $4,661 in other benefits. Furthermore in 1998 the executive will be overpaid $37,207 in salaries. Specifically:

- Two current Board executives received their former board's salary bonus during 1997 at a cost to the current Board of $11,686, even after being placed on the current Board's new executive salary scale which already included those same bonuses. As a result, these employees were overpaid a total of $11,686.
- These two employees also continued to receive their former board's vehicle

allowances which were in excess of Government policy at a cost to the current Board of $4,661. One vehicle allowance for $2,446 was paid in accordance with a personal employment contract of a former board which the current Board continued to honour. However, the Department of Education informed all school boards in January 1997 that vehicle allowances would not be approved. This was also in contravention of the *Schools Act, 1996* which was in effect at the time and which required school boards to adopt personnel policies consistent with those of Government. As a result, these employees were overpaid a total of $4,661.

- In September 1997, the current Board "topped up" the salaries of its four executive employees to step 33 on the approved salary scales, contrary to the direction of Cabinet and the *Schools Act, 1996*. These salary "top-ups" cost the current Board $41,136 in 1997 and will cost $31,666 in 1998. As a result, these employees were overpaid a total of $41,136 in 1997 and will be overpaid $31,666 in 1998.

- The Department of Education was not notified that the current Board had increased the salaries of these four executives and as a result, in January 1998, the Department provided step increases to three of these executives. These step increases created salaries which were in excess of the salary scales established by Cabinet for school board executives. As a result, these employees were overpaid another $5,541 during 1998. The Board has since taken action to recover this $5,541 in overpayment.

The boards made certain other expenditures that were not in accordance with Government policy or the *Schools Act, 1997* or its predecessor Act. Specifically:

- In May 1996, one former board approved a total of $36,252 in contract settlements to six employees in lieu of the continuation of their employment contracts with the former board and paid an additional $1,500 in December 1996 to another employee for additional work performed as a result of employee redundancies. There was no requirement in the contracts to pay this settlement and four of the six employees continued to be employed with the school boards.

  The former board also paid $42,555 to an executive employee for 2/3 of the employee's unused accumulated education leave. There was no requirement to pay this amount and the employee continued to be employed with the school boards.

- Two former boards also paid vehicle allowances in excess of Government guidelines to 10 employees, some as high as $350 per month.

- For the period December 1996 to June 1998, the current Board paid $30,529 charged to two employee corporate credit cards. Of the $30,529, only $4,491 was supported by receipts. Controls over these corporate credit cards are inadequate. Receipts were not normally attached to credit card statements and travel claims were not always submitted by the executive to support credit card transactions. The receipts attached to the statements did not always detail information regarding the nature of the transaction such as the purpose of a meal or the number and name of guests. Of the claims reviewed, most were not approved by a representative of the School Board. A review of the credit card statements for the current Board indicated personal items totalling $699 and interest and delinquency charges of $405. In addition, there were 76 restaurant charges totalling $5,124 with little or no supporting documentation.

- A total of $41,171 for 150 unused vacation days for five employees was paid out at the end of the 1995-96 school year. Three of these employees continued employment with the current Board while two subsequently had their positions declared redundant. All five subsequently received payment for an additional 50 days for unused vacation days in accordance with Government policy.

- The former boards spent and the current Board continues to spend monies on expenditures such as Christmas parties, retirement dinners and gifts, for which there is no authority under the *Schools Act, 1997* or predecessor Acts. The former boards spent $30,837 and the current Board spent $20,740 during the period under review.

Findings

Transfer of Assets and Liabilities

A review of the transfer of assets and liabilities from the former school boards to the current Board revealed that all closing balances as recorded by the four former boards as at 31 December 1996 were properly set up on the accounts of the current Board. However, our review indicated the following:

- Effective 5 November 1996 the Avalon Consolidated School Board transferred control of assets worth approximately $573,000 as at 30 June 1996 to four private trustees, on the basis that they were "trust" funds. As a result, the control and accountability for use of these assets has been removed from the school boards, despite the fact that approximately half of the assets were paid to the Avalon Consolidated School Board, under a Court Order, for its "general educational purposes" and the other half represented Scholarship Trust funds.

  The Board had become entitled to the accumulated income and further annual income from the Pitts Estate Charitable Trust as a result of its having launched a court case in 1979 in which it sought a court order that it had sole entitlement to the future annual income and the accumulated income. A court order issued in 1985 adopted a scheme agreed upon between the Board and the Trustee, the Newfoundland Conference of the United Church of Canada, and another potential claimant, as a result of a 1983 ruling as to the nature of the trust and the appropriate Trustee. Under the 1985 court order, the Board became entitled to the substantial balance remaining after certain specified payments, accumulated profits and income which had built up over many years, together with future annual income and profits, for its "general educational purposes".

  There was no authority under the *Schools Act*, the legislation in force at the time, for the Avalon Consolidated School Board to relinquish its responsibility for the administration of these funds without the approval of the Minister. In fact, an amendment of Section 6 of the *Schools Act* in force 19 August 1996 provided that all property real and personal, of a dissolved school board is the property of the successor board and further provided that for *all real and personal property, held or used for the purpose of education by a dissolved school board, the successor board shall be substituted for the dissolved school board in respect of any entitlement, interest, instrument, deed, contract, agreement or other document held by the dissolved school board with respect to that property.*

  Moreover, the Minister had advised all boards not to enter into any contracts or commitments after 1 September 1996 without the approval of the successor board, but no such approval was given. Despite these facts, neither the current Board nor the Department of Education has challenged the transfer of control of these assets.

- On 5 November 1996, the Avalon Consolidated School Board, based on legal advice, approved severance packages totalling $269,224 (calculated as $110,599 in excess of the Government approved package) for two of its employees whose positions were declared redundant. These funds were not paid to the retiring employees prior to the dissolution of the former board on 31 December 1996 and as a result it was left to the current Board to pay the redundancy packages. The current Board approved the enhanced packages on 6 December 1996 with this approval being contingent on the approval of the Minister of Education. The Board paid the enhanced packages of $269,224 on 30 January 1997 as disclosed in Figure 2, although the Minister refused to approve the packages.

Figure 2

District #10 - Avalon East School Board
Former Board Severance Payment

Severance Payments and Funding Sources	Employee #1	Employee #2	Total
Severance calculated by former Board:			
Severance due-2 years/1 year	$169,022	$70,426	$239,448
Unused vacation days - 50 days	16,232	13,544	29,776
Total former Board severance calculation	$185,254	$83,970	$269,224
Source of funding:			
Government - redundancy of 62 weeks/29 weeks	$89,553	$39,276	$128,829
Government - unused vacation days-50 days	14,444	-	14,444
Trust Fund	79,449	31,150	110,599
New Board	1,808	13,544	15,352
Total funding	$185,254	$83,970	$269,224

Source: School Board Financial Records

The *Schools Act, 1996*, states "*a board shall not make a payment to an employee as a result of the termination of his or her employment or the abolition of his or her position except as approved by the Minister*". Since the Minister of Education did not approve these enhanced severance packages, the payments were made not only in breach of the applicable legislation, but also without approval of the current Board.

The four private trustees agreed to reimburse the current Board the $110,599 they calculated to be the excess amount of the severance payments over the Government approved packages from the monies they were holding in the fund designated the "Pitts Trust", but the current Board did not actually receive the money until 2 May 1997, three months after it had paid the enhanced severance packages. No interest was charged on this use of education funds for the three months.

In my opinion, the assets which the Avalon Consolidated School Board transferred out to individual trustees on 5 November 1996, should have been turned over to the current Board, who by specific statutory provision, was the successor in law to the former Board and entitled to be substituted for it as trustee of any trusts under which the former Board held or used property for the purpose of education.

- None of the former boards maintained capital asset ledgers. Also, no listings were prepared of the former board offices' furniture and equipment that were transferred to new locations. The Assistant Director-Finance for the current Board stated that board office assets were either transferred to the new office, to the various schools or stored at one of the former board's office.

Certain land and sites transferred from the former school boards have been vested with the respective denominational authorities. Section 84 of the *Schools Act, 1997* provides guidance for the transfer, maintenance or disposition of such assets, depending on whether or not a denominational authority provided property or funds for the purchase, construction or maintenance of the property. At the time of our review, discussions were being held between the denominational authorities and the current Board; however, no agreements had been entered into regarding the transfer, disposition or maintenance of these properties.

M121

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Figure 3

District #10 - Avalon East School Board
Financial Operations
For the Period Ending

Financial Item	District #10 1 January 1997 - 30 June 1997	Former Boards 1 July 1996 - 31 December 1996	Total 1996-97	Former Boards 1995-96	Variance	%
Revenue						
Government Grants	$ 67,779,576	$ 67,198,637	$ 134,978,213	$ 144,202,667	$(9,224,454)	(6.4)
Ancillary Services	5,500	22,500	28,000	27,337	663	2.4
Miscellaneous Revenue	303,006	580,602	883,608	1,318,354	(434,746)	(33.0)
Total Revenue	68,088,082	67,801,739	135,889,821	145,548,358	(9,658,537)	(6.6)
Expenditure						
Administration	1,746,612	1,455,783	3,202,395	3,994,300	(791,905)	(19.8)
Instructional	54,034,522	56,831,512	110,866,034	119,348,459	(8,482,425)	(7.1)
Operations & Maintenance	7,462,108	6,158,661	13,620,769	13,663,998	(43,229)	(0.3)
Pupil Transportation	4,070,062	2,503,197	6,573,259	6,516,048	57,211	0.9
Debt Charges	602,202	496,644	1,098,846	1,115,866	(17,020)	(1.5)
Severance/Annual Leave Accrual	0	5,882	5,882	59,194	(53,312)	(90.1)
Total Expenditure	67,915,506	67,451,679	135,367,185	144,697,865	(9,330,680)	(6.4)
Excess of Revenue over Expenditure	172,576	350,060	522,636	850,493	(327,857)	
Transfer to Capital	(250,567)	(494,237)	(744,804)	(685,897)	(58,907)	
Increase (decrease) in Equity	$ (77,991)	$ (144,177)	$ (222,168)	$ 164,596	$ (386,764)	

Source: Audited Financial Statements

- At the time of our review, many of the records of the four former boards were stored off site in one of the former board's head office. Upon a visit to this office, we found that no record was maintained on what records were stored or where they were stored. We encountered records stockpiled with little or no regard for organization. Former board files were stored with other former board files and located in different rooms and on different floors. We also found boxes of unused educational videos, office supplies and copier paper, numerous empty filing cabinets and shelving units. This neglect for proper storage and record keeping hindered our review in determining whether all records were made available to us. In particular, certain employment contracts and information regarding one former board's trust accounts had to be obtained from outside the current Board's organization.

Financial Position

We examined and compared the financial operations of the amalgamated former school boards to that of the current Board. Figure 3 provides an analysis of the financial operations of the former school boards and the current Board.

As Figure 3 shows, the district received approximately $9.7 million less in revenues and spent $9.3 million less in 1996-97 than in the 1995-96 school year. The current Board's financial position as at 30 June 1997 was favourable. It had over $5.2 million in cash and short-term investments, a positive working capital position of $4.1 million and reported no long-term debt.

Review of Expenditures

A review of the former boards' expenditures during the last six months of their operations (1 July 1996 to 31 December 1996) and the current Board during its first six months of operation (1 January 1997 to

3.9 District #10 - Avalon East School Board

Figure 3

District #10 - Avalon East School Board
Financial Operations
For the Period Ending

Financial Item	District #10 1 January 1997 - 30 June 1997	Former Boards 1 July 1996 - 31 December 1996	Total 1996-97	Former Boards 1995-96	Variance	%
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Ancillary Services	5,500	22,500	28,000	27,337	663	2.4
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Total Revenue	68,088,082	67,801,739	135,889,821	145,548,358	(9,658,537)	(6.6)
Expenditure						
Administration	1,746,612	1,455,783	3,202,395	3,994,300	(791,905)	(19.8)
Instructional	54,034,522	56,831,512	110,866,034	119,348,459	(8,482,425)	(7.1)
Operations & Maintenance	7,462,108	6,158,661	13,620,769	13,663,998	(43,229)	(0.3)
Pupil Transportation	4,070,062	2,503,197	6,573,259	6,516,048	57,211	0.9
Debt Charges	602,202	496,644	1,098,846	1,115,866	(17,020)	(1.5)
Severance/Annual Leave Accrual	0	5,882	5,882	59,194	(53,312)	(90.1)
Total Expenditure	67,915,506	67,451,679	135,367,185	144,697,865	(9,330,680)	(6.4)
Excess of Revenue over Expenditure	172,576	350,060	522,636	850,493	(327,857)	
Transfer to Capital	(250,567)	(494,237)	(744,804)	(685,897)	(58,907)	
Increase (decrease) in Equity	$ (77,991)	$ (144,177)	$ (222,168)	$ 164,596	$ (386,764)	

Source: Audited Financial Statements

- At the time of our review, many of the records of the four former boards were stored off site in one of the former board's head office. Upon a visit to this office, we found that no record was maintained on what records were stored or where they were stored. We encountered records stockpiled with little or no regard for organization. Former board files were stored with other former board files and located in different rooms and on different floors. We also found boxes of unused educational videos, office supplies and copier paper, numerous empty filing cabinets and shelving units. This neglect for proper storage and record keeping hindered our review in determining whether all records were made available to us. In particular, certain employment contracts and information regarding one former board's trust accounts had to be obtained from outside the current Board's organization.

Financial Position

We examined and compared the financial operations of the amalgamated former school boards to that of the current Board. Figure 3 provides an analysis of the financial operations of the former school boards and the current Board.

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Review of Expenditures

A review of the former boards' expenditures during the last six months of their operations (1 July 1996 to 31 December 1996) and the current Board during its first six months of operation (1 January 1997 to

30 June 1997) was performed to determine if expenditure transactions were prudent and appropriate. Figure 4 outlines expenditures made by the boards that either were not provided for under the *Schools Act, 1997* or predecessor Acts or were not in accordance with Government policy.

Figure 4

District # 10-Avalon East School Board Expenditures Without Authority

Expenditure Description	Former Boards	Current Board	Total
Salary top-up (1997)	$	$ 52,822	$ 52,822
Salary increment above step 25		5,541	5,541
Excess employment contract settlements	78,807		78,807
Retirement dinners and gifts	30,837	20,740	51,577
Travel allowances above Government policy (annualized)	13,560	4,661	18,221
Total expenditures without authority	$ 123,204	$ 83,764	$ 206,968

Source: School Board Expenditure Records

The following provides details of the above and other expenditure practices of the former boards and the current Board.

- The executive staff for the current Board, consisting of the Director and three Assistant Director positions, are required to be paid using salary scales approved by Cabinet. The Minister of Education communicated the approved salary scales to the current Board on 25 October 1996 and at that time indicated that the current Board did not have the authority to "top up" the approved salaries. However, in a letter dated 15 November 1996 to the executive director of the Newfoundland and Labrador School Boards' Association, the Minister provided flexibility to the boards in placing executive staff at a step on the approved scale not in excess of step 25 as long as the boards had other funds to pay these salaries. Our review identified the following:

  - We could not identify any "other funds" which could be used to pay these "top ups".

  - For the period 1 January 1997 to 1 October 1997 one executive staff continued to receive biweekly bonus payments of $385 representing an annual bonus of $10,000 while another executive staff received an annual bonus of $4,000 in July 1997. These bonuses had been paid to these employees during their employment with the former boards and were already included in their new salaries. As a result, these employees were overpaid a total of $11,686.

  The same two employees also continued to receive annual vehicle allowances of $4,200 and $3,000 respectively. One of these vehicle allowances was paid in accordance with a personal employment contract of a former board which the current Board continued to honour. However, the Department of Education informed all school boards in January 1997 that vehicle allowances would not be approved. This was also in contravention of the *Schools Act, 1996*, which required boards to adopt personnel policies consistent with Government policy. Government policy for vehicle allowances is $85 per month or $1,020 annually. One employee received the full vehicle allowance of $3,000 in July 1997 and the $85 monthly allowance commencing in October 1997 when the employee signed a contract with the current Board. The other employee received $3,220 of their $4,200 vehicle allowance through biweekly payments of $161 from 1 January to 1 October 1997 at which time these payments ceased and the employee received the $85 per month vehicle allowance. As a result, these employees were overpaid a total of $4,661 in 1997 relating to vehicle allowances in excess of Government policy.

There was no Board approval for the continuation of these bonus payments or the vehicle allowances.

- In September 1997, the current Board approved employment contracts which placed its four executive staff on step 33 of their salary scales. This contravened the direction of Cabinet. This also contravened the direction of the Minister that no executive staff be placed above step 25 unless their previous salary placed them between step 25 and step 33. The previous salaries of three of the four executive were all less than step 25. However, in December 1997, the current Board paid its executive staff retroactively to 1 January 1997 at a total cost to the current Board of $41,136. As a result, these employees were overpaid a total of $41,136 in 1997 and will be overpaid $31,666 in 1998.

- In January 1998, the Department of Education provided step increases to three of the executive who were paid through teachers' payroll. These step increases were based upon the salary and step placements as approved upon the establishment of the current Board. The current Board did not notify the Department that these employees were subsequently placed on step 33 in September 1997. As a result, these employees were overpaid $5,541 during 1998. The current Board has taken action to recover these amounts from its employees.

In summary, during 1997, the four executive staff were overpaid salaries of $52,822 and were overpaid vehicle allowances of $4,661. These four executives will be overpaid salaries of $37,207 during 1998.

- In May 1996, one former board approved settlements of six employee contracts in anticipation of its dissolution. From August 1996 to October 1996, the former board paid five of its senior staff $4,000 each, less any accounts receivable owing to the board. Three payments were calculated as 1/2 of the difference between a principal's bonus and an assistant superintendent's bonus while the other two were calculated based upon unused annual leave. Another employee received $1,500 in December 1996, in addition to their regular salary, for extra duties taken on as a result of earlier employee redundancies. There was no requirement in the contracts to pay these amounts and four of the six employees continued to be employed with the school boards.

  In May 1996, another employee was paid $42,555 calculated as 2/3 of the employee's unused accumulated education leave while another employee was paid $16,252 calculated at 2/3 of the employee's unused annual leave over 50 days. There was no requirement to pay these amounts and both employees continued employment with the current Board.

- Christmas, year-end and retirement dinners and associated gifts continue to be provided within the school district. One former board spent $7,725 for dinners and other socials during the last six months of operations and another $17,413 in retirement gifts presentations related to these events. Another former board spent $4,532 for a retirement dinner and a secretaries luncheon and $538 for gifts, while another former board spent $243 for a Christmas social and $386 for gifts for board members. The current Board spent $9,208 for its year-end and retirement dinners and $11,532 in retirement gifts.

Also, in October 1996, one former board reimbursed one of its board members $1,407 for charges to the member's personal credit card for restaurant services. No other supporting documentation was attached to support the credit card transaction.

- Two former boards paid its executive staff car allowances in excess of Government rates. Based upon personal employment contracts, one former board paid one employee a monthly car allowance of $350, one was paid $250 and three were paid $167 each. Another former board paid three of its staff $160 per month, one employee $100 per month and another employee $300 per month. Government policy only allows for $85 per month as a vehicle allowance. The cost of the vehicle allowances in excess of Government policy totalled $13,560 annually.

- Current Board controls over corporate credit cards are inadequate and inconsistent with Government policy. In contrast to Government policy where the employee pays the credit card balance and is reimbursed through a travel claim, the current Board pays the monthly credit card balance on behalf of the employee and sets up the charge as either an accounts receivable from the employee or charges it to an expenditure account. The accounts receivable is cleared once travel claims are submitted and the transaction is charged to an expenditure account. This policy has significant weaknesses as identified below:

- Travel claims are not being submitted by two Executive staff on a timely basis to support credit card transactions. Of a possible 22 claims to be submitted for out-of-town travel, only 9 were found on file. A review of the travel claims submitted indicated that two claims were submitted over six months after the travel had occurred, and only after the employee was invoiced $4,748 in April 1998 for credit card transactions dating back to October 1997. Another four claims for another employee only included taxi fares and other minor charges and did not include accommodations or per diem meal rates which would offset the related credit card transactions.

- For the period January 1997 to June 1998, the current Board paid $30,529 charged to two employee corporate credit cards, of which $22,969 was for out-of-town travel, $5,819 was for in-town meeting expenses and $1,741 was for miscellaneous items. The meeting expenses included $5,124 for 76 restaurant charges.

Receipts were not always attached to the credit card statements to support the transactions. Of the $30,529 only $4,491 was supported by receipts. The employee would note the purpose of the transaction on the statement for posting purposes; however, without attached receipts the current Board could not demonstrate whether credit card transactions were actual business expenses. A review of the receipts that were attached to the statements indicated that the receipts did not always detail information regarding the nature of the transaction such as the purpose of a meal or the number and name of guests.

Of the travel claims reviewed, most were not approved by an official of the current Board.

- A review of the credit card statements for one employee indicated items noted as personal items totaling $699 during September and October 1996. Other items identified on the two credit cards as miscellaneous charges included $395 in hotel memberships, $85 in flowers for staff appreciation, and $482 in Christmas and retirement dinners.
- From January 1997 to June 1998, the current Board paid $405 in delinquency and interest charges.

- Five former board employees received payments for unused vacation pay in June 1996. The payments were all for 30 days each and totaled $41,171. Two of these employees had their positions declared redundant and received payment for an additional 50 days each as part of their redundancy packages in January 1997. Three employees continued employment with the current Board and also received payment for an additional 50 days in accordance with Government policy. Government policy permits the payment of a maximum of 50 days for any unused vacation days.

Board's Response

The 1997 Auditor General's Report confirmed that the Lieutenant Governor in Council had authorized School Boards to place employees on the approved pay scale at the step next highest to their current salary, but in no case above Step 33, and was critical of the confusion that appeared to exist from communications from the Department of Education with regard to the salary scales of senior executives. This was further aggravated by the fact that Treasury Board's Hay system was not followed because certain directors and assistant directors were placed on salary levels in relation to their previous salary, which placed them at higher levels than the directors and assistant directors of the larger consolidated Boards.

Under the Schools Act, 1996, the current Board assumed the liabilities of the former Boards, which included written contracts of employment which were still in place. The Avalon East School Board met the obligations under these contracts until they were replaced with new contracts which placed the senior staff on salary levels which did not exceed Step 33 as authorized by the Lieutenant Governor in Council, but which in certain cases still leave the senior staff at salary levels less than smaller school Boards in other parts of the Province. The current Board continues to believe, based on legal advice, that the placement of the senior staff at these salary levels conforms with the legislation. The Department of Education has taken no steps to being these compensation levels into line with the Hay classification plan, and in some instances, the salary levels of senior staff exceeds Step 33.

At the time of the Auditor General's review of School Board financial records, and in particular the status of files from the former Boards, the Auditor General did not take into account the significant shortage of Board office staff to establish a more thorough record keeping system. The current Board personnel are still under enormous pressure in the restructuring process with a significant shortage of Board office personnel for routine matters such as categorizing and organizing the record keeping from the former Boards.

The comments with regard to expense claims by senior executives for travel and for food costs do not take into account that the credit cards utilized were issued specifically for School Board expenses. The School Board members themselves have had numerous meetings which, as a volunteer Board, have taken place during lunch time and evenings through many meal hour periods where costs have been incurred in connection with this activity and charged to the Executive credit card.

The reimbursement of unused leave to a maximum of 50 days represents the discharge of the current Board of an obligation that existed under the contracts of employees of the former Board who had the option to take the unused sick leave upon redundancy or to bank the days until retirement. The Avalon East School Board simply paid out a liability which it had assumed from the former Board to those senior personnel who elected to take their accrued unused 50 days of leave. The Department of Education has advised Boards that this was an appropriate resolution of the status of the unused leave days.

The payout of any other unused benefits, such as professional leave, was also the discharge of liabilities which existed under the former Board operations, and where the matters of salary and benefits were not controlled by the Department of Education or the Lieutenant-Governor in Council in the same manner as they are now controlled through the Schools Act, 1996, and subsequently, the Schools Act, 1997.

The transfer of assets and liabilities from the former School Boards is a topic which the Avalon East School Board has been concerned about since its inception. Our records will indicate that legal advice and assistance has been sought from the firm of Benson and Myles in this regard since February 1997. Therefore, this has proven to be a complex and somewhat complicated manner. Our legal counsel on this matter has been somewhat delayed by the fact that all historical information and documentation has not been readily available to the Avalon East School Board.

Response of the Trustees

The Trustees were provided with a copy of the portions of my report pertaining to the trust funds and given the opportunity to submit a response. Their response sets forth a rationale for the past actions of the Avalon Consolidated School Board. However, the fact remains that had the transfer of trust funds not occurred, the successor board would most definitely have been entitled to assume the role of the trustee in place of the Avalon Consolidated School Board of all property that was held in trust for the purpose of education and, in my opinion, would have been the more appropriate result than the transfer to individual trustees. Their entire response, as submitted, follows.

The Draft Report contains incorrect and unjustified findings which rely on innuendo and incomplete explanations rather than drawing conclusions from facts set out in an objective manner.

These may be summarized as follows:

- *Incorrect: By placing the words "trust funds" in quotation marks and stating that Avalon Consolidated School Board "described" them as "trust funds", is the Auditor General suggesting that the funds were not trust funds or that they were operating funds? If so, this is incorrect.*

  Correct: Avalon Consolidated School board held all of the property in trust. There is nothing in the Draft report to sustain a contrary conclusion. Historically, Avalon Consolidated School Board accounted for all of these funds as funds subject to trust conditions. To suggest otherwise is misleading.

- *Incorrect: The Draft Report states that trust funds were transferred by Avalon Consolidated School Board to "private trustees". What is this term supposed to mean? Is the Auditor General contending that the trustees are somehow not accountable or are somehow persons without a legitimate connection with the trust property? Is the Auditor General suggesting that these trust funds are "public money" within the meaning of the Auditor General Act? If so, the contentions are incorrect.*

  Correct: The trustees were all members of Avalon Consolidated School Board representative of each of the Churches in Integration. The trust property is connected with the Churches in Integration as a matter of law.

The trust property derives from private donations made over the years and is not "public money". The Auditor General has no authority to review and comment on the disposition of such privately-sourced funds.

The term "private trustee" has no meaning in law. The trustees have the same obligations with respect to the trust property as did Avalon Consolidated School Board. They are accountable to the court under the law of charitable trusts and generally under the Trustees Act, R.S.N. 1990, c. T-10. To suggest otherwise is misleading.

The Deeds of Substitution of Trustees made it condition of appointment and continuing eligibility to act as trustees, that the trustees be and remain members in good standing of the successor Avalon East School Board (District 10) who represent the classes that formed one Integrated school system by agreement in 1969. Thus, the trustees hold their position by virtue of being school board members and by virtue of their connection with the Churches in Integration. To suggest otherwise is misleading.

- *Incorrect: The Draft Report argues that the trust funds should have been transferred to the successor Avalon East School board and that there was no authority for the School Board to relinquish administration of the trust funds without ministerial approval.*

Correct: Avalon Consolidated School Board was established as a corporation (Schools Act, R.S.N. 1990, c. S-12, s. 31). Thus, the School Board had expressed legislative authority to acquire and hold property for the purposes for which it was constituted and to transfer all or part of the property at pleasure. (Interpretation Act, R.S.N. 1990, c. I-19, s. 19(a). The School board had expressed authority to act as it did and nothing in the August 1996 amendment to the Schools Act affected this power.

Further, the Trustee Act expressly authorizes a trustee to appoint new trustees in the former trustee's place.

The Draft report is in error when it suggests that there was an obligation to transfer the trust property to the successor board. If the Auditor gene[illegible] intent upon perpetuating this error, then she is specifically requested to identify the legislative provision requiring such a "transfer".

It is erroneous to state that there is a requirement of ministerial approval for the relinquishment of administration of trust funds. Again, if the Auditor General is intent upon perpetuating this error, then she is specifically requested to identify the legislative provision requiring such approval.

The governing legislation provided for automatic transfer of assets to a successor board upon dissolution of a former board. The legislation did not prohibit the School Board from substituting trustees in respect of trust property with a denominational stamp. The Legislature enacted no such prohibition.

The trust property in question was lawfully connected with the Churches in Integration and was held in trust by Avalon Consolidated School Board as the denominational school board representing the classes of persons in Integration under the Document of Integration signed in 1969.

Under the trustees, the intentions of the instruments of donation continue to be respected as does the legal connection with the Churches in Integration.

- *Incorrect: The Draft Report refers to ministerial advice to school boards not to enter into any contracts or commitments after 1 September 1996 and seems to suggest that the Deeds of Substitution of Trustees somehow ran contrary to this advice. This is erroneous.*

  Correct: The Deeds of Substitution of Trustees executed by Avalon Consolidated School Board are neither contracts or commitments. The Auditor General is challenged to show how a substitution of trustees is either one or the other.

- *Incorrect: The successor Avalon East School Board paid enhanced severance payments to employees of Avalon Consolidated School Board which were not authorized by the Minister of Education.*

  Correct: Avalon Consolidated School Board, based on legal advice, approved severance settlements for two senior employees based on their contracts of employment. This legal advice indicated that the legislature could not give the Minister of Education the power to limit the recovery of severance payments retroactively to amounts less than what our courts would award. Avalon consolidated School Bard would have a liability for severance payments to the senior employees which would then be assumed as a liability by Avalon East School Board. Avalon Consolidated School Board had formerly utilised income from the Pitts Trust for the payment of salary and benefits to a technology coordinator at the Board office and for similar purposes. The trustees received legal advice that income from the Pitts Trust could be used to extinguish a liability of Avalon Consolidated School Board to its employees for severance.

  Avalon East School Board actually made the severance payments since Avalon Consolidated School Board had been dissolved before the matter was resolved with the senior employees. Avalon East School Board paid out the sum authorized by the Minister from Board funds, i.e., public money. The balance came from the trustees of the Pitts Estate fund since this was a liability of Avalon Consolidated School Board which had been accepted prior to the creation of Avalon East School Board. Avalon Consolidated School Board approved the severance payments and Avalon East School Board was bound by the decision of Avalon Consolidated School Board and has assumed its liabilities.

Background

The Reason for Substituting Trustees

On 5 November 1996, Avalon consolidated School Board executed three instruments of substitution of trustees in which the School board named individual members of the School Board as trustees of certain denominational educational trust property in its place. The reasons behind this action by the School Board follow.

Avalon consolidated School Board was a denominational school board established pursuant to Term 17 of the Terms of Union of Newfoundland with Canada. The board was representative of the classes of persons who were adherents of the Churches in Integration, i.e., the Anglican Church, the Presbyterian Church, the Salvation Army, and the United Church. By virtue of the Document of Integration signed by those Churches in 1969, the Churches agreed voluntarily to establish an Integrated denominational school system in the Province.

On 31 October 1995, the Newfoundland House of Assembly adopted a resolution authorizing an amendment to the Constitution of Canada to provide for a system of inter-denominational schools in Newfoundland. This resolution was vigorously opposed by the Roman Catholic Church and the Pentecostal Church. On 3 June 1996, the House of Commons adopted the resolution, thereby paving the way for a constitutional amendment.

Shortly after the passage of the resolution in the House of Commons, Avalon Consolidated School Board approached its solicitors, Stewart McKelvey Stirling Scales, with a concern about the trust property because the schools which it administered and the trust property were connected with the Churches in Integration.

Without assurance that the Roman Catholic Church and the Pentecostal Church would infuse their educational trust funds into the new system, there was concern that trust property connected with the Churches in Integration would be applied inequitably over a much larger system for the benefit of all classes of persons holding rights under Term 17 without any funding by the Roman Catholic Church and the Pentecostal Church.

Subject to the instruments of donation, Avalon Consolidated School Board was satisfied to allow the trust property which it held as trustee to be made available for the benefit of all students regardless of religious adherence provided that all classes of persons infused their trust property into te new inter-denominational system. However, that eventuality was thought to be unlikely, at least in the short term. Both the Roman Catholic Church and the Pentecostal Church were opposing the establishment of the proposed interdenominational school system.

Avalon Consolidated School Board was aware that Roman Catholic denominational educational trust property was often held within the Church structure itself rather than at the School Board level, as was the case with the trust property.

Having received advice from its solicitors that, whoever was trustee would have to see to the application of the trust property in accordance with the instruments of donation, Avalon Consolidated School Board instructed its solicitors to prepare instruments whereby named members of the School Board representative of the Churches in Integration would be substituted as trustees in place of the whole School Board as trustee, pending agreement by all Churches to provide educational trust funding to the new inter-denominational school system.

The School Board's solicitors reviewed the Trust Funds Auditor's Report and Balance Sheet as at 30 June 1995 and noted that the trust property had its source in private donations made over the years and was accounted for separately from the Board's operating funds derived from public money. There were three groupings of such trust property as follows:

- *Scholarship and Other Trust Funds;*
- *the Pitts Estate Trust;*
- *the Ayre Athletic Grounds;*

The School Board's solicitors determined that the School Board was trustee of the trust property on the following basis:

- *The Scholarship and Other Trust Funds were held by the School Board as trustee in accordance with the instruments of donation and were, generally speaking, directed towards the provision of scholarships.*
- *The Newfoundland Conference of the United Church of Canada is trustee of the Pitts Estate Fund, which it administers under a Scheme approved by the Supreme Court of Newfoundland on 25 July 1985. Under the Scheme, after making certain stipulated payments into Church programmes, Conference paid the net annual income from the Fund to Avalon Consolidated School Board for the Board's "general educational purposes". The School Board was sub-trustee of this income for those purposes.*
- *Avalon Consolidated School Board was trustee of the Ayre Athletic Grounds, subject to the instrument of donation and the Document of Integration entered into in 1969 among the Churches in Integration.*

Treating the School Board as trustee of privately-sourced property in each case, the solicitors drew deeds of Substitution of Trustees for each property grouping. The authority for such substitution was derived from the Trustee Act, R.S.N. 1990, c. T-10.

At the time that the School Board instructed its solicitors to draw the instruments in June 1996, the legislation regulating school board property was contained in sections 31-39 of the Schools Act, R.S.N. 1990, c. S-12.

There was no prohibition in the Schools Act respecting the substitution of trustees. Nor was there any such prohibition contained in the Schools (Amendment) Act and Education (Amendment) Act, S.N.. 1996, c.13, which came into force on 16 August 1996.

Neither piece of legislation precluded a school board which was trustee of denominational educational trust property from making arrangements for the substitution of trustees.

The new legislation did provide that, upon dissolution of a school board, the successor board was to be substituted for the dissolved board in the appropriate instrument in respect of title to property held for the purpose of education. However, there had been no dissolution on 5 November 1996, the date Avalon Consolidated School Board signed the Deeds of Substitution of Trustees. Dissolution did not occur until 31 December 1996.

Avalon Consolidated School Board sought transparency by instructing its solicitors to make it a condition of appointment and continuing eligibility to act as trustee, that the trustees be and remain members in good standing of the successor Avalon East school Board (District 10) who represent the classes that formed one Integrated school system by agreement in 1969.

It is important to remember that the act of Avalon Consolidated School Board in arranging for a substitution of trustees did not in any way affect the beneficial entitlement to the educational trust property connected with the Churches in Integration. The new trustees must see to it that the trust property is applied in accordance with the instruments of donation, subject to the Trustee Act and judicial direction.

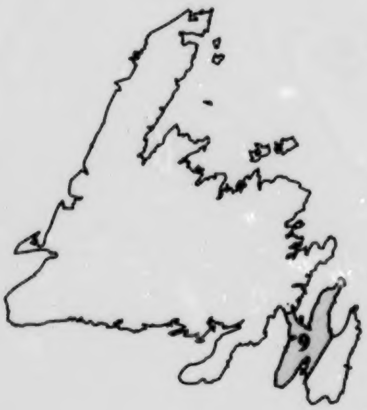
3.10 District #9 - Avalon West School Board

Introduction

The District # 9-Avalon West School Board (the Board) serves the western half of the Avalon Peninsula, from Holyrood, south to Peter's River and east to Southern Harbour. The current Board was created in 1996 and absorbed the schools served by the Western Avalon Roman Catholic School Board and the Avalon North Integrated School Board, two schools operated by the Pentecostal Assemblies Board of Education and one school operated by the Seventh Day Adventist School Board . Upon its establishment, there were approximately 13,400 students in 60 schools, with school enrolments ranging from 10 to 681. Figure 1 provides some general information pertaining to the current Board.

Figure 1

District #9 - Avalon West School Board
District Profile
1996-97



District #9 Statistics

Board Office:	Spaniard's Bay
Number of Schools:	58
Number of Students:	12,733
1996-97 Expenditures:	$60.9 million

Scope and Objectives

We conducted our review to determine whether the transfer of assets and liabilities from the former school boards to the current Board was timely, complete and appropriate. In performing this review we examined the financial position of the boards before and after amalgamation. In addition we reviewed expenditures to assess whether liabilities had been increased or assets reduced by inappropriate transactions during the transition period represented by the last six months of the former boards' operations (1 July 1996 to 31 December 1996) and the first six months of Board's operations (1 January 1997 to 30 June 1997).

Conclusions

Transfer of Assets and Liabilities

The financial assets and liabilities of the former boards as reported on their financial statements were properly recorded in the accounts of the current Board.

We are very concerned over the lack of control and accountability by the Board and the Department of Education over various types of ancillary funds including canteen sales, fund raising events, donations and scholarships. The extent of ancillary funds within the current Board is not known; however, we identified canteen funds of $256,855 which were recorded previously on the financial statements of one of the former boards but is not reported on the financial statements of the current Board.

Accounts receivable transferred to the current Board included $7,020 owing for cash advances to an employee of the Board. At 31 March 1998 this employee owed a total of $40,587 to the current Board and the Department of Education. This amount consisted of $8,973 owing to the current Board for various advances, $21,800 owing to the current Board for redundancy pay repayment and $9,814 owing to the Department of Education for redundancy pay repayment. No interest is being charged by the Department or the current Board.

The current Board could not demonstrate whether all capital assets were properly accounted for since there were no listings of these assets. In addition, the ownership of schools vested with denominational authorities was still unresolved at the time of our review.

Better cash management and early consolidation of bank accounts could have resulted in lower overdraft charges.

Financial Position

Overall the financial position of the current Board as at 30 June 1997 was favourable compared to the combined former boards' financial position as at 30 June 1996. Also, expenditures were reduced, most significantly in the current Board's instructional and administration budgets.

Review of Expenditures

The former boards and the current Board continue to spend monies on such things as Christmas parties, retirement dinners and gifts, for which there was no authority under the *Schools Act, 1997* or predecessor Acts. The former boards spent $10,400 and the current Board spent $10,687 during the period under review.

The boards also made certain expenditures which were not in accordance with Government policy. These include retiring gifts of $12,000 over and above earned entitlements, $8,775 for 33 unused vacation days in addition to the 50 day maximum established by the Department of Education, the payment of unused vacation days for a number of staff of former boards, totalling $62,711, who are currently working for the current Board, the red circling of salaries for a number of positions transferred from the former boards, and the payment of vehicle allowances in excess of Government policy, some as high as $450 per month.

Both the former boards and the current Board allowed personal expenses to be charged to corporate credit cards or allowed personal expenses to be paid for by the boards and later repaid by the employee. Allowing personal items to be charged or paid by the boards basically provided employees with public monies to be used for short term financing needs.

Findings

Transfer of Assets and Liabilities

A review of the transfer of assets and liabilities from the former school boards to the current Board revealed that all closing balances of the two former boards were properly set up on the accounts of the current Board. Our review of these balances noted the following:

- As at 31 December 1996, one former board reported $338,117 in trust funds on its financial statements. This balance was comprised of $256,855 in school canteen funds and $81,262 in scholarship funds. As at 30 June 1997, only scholarship funds remain on the current Board's financial statements while the canteen funds and other school funds are not reported. The Assistant Director-Finance stated that some schools submit annual reports which provide some financial information; however, for the most part school funds are not reported or monitored. The current Board does not have any policies or procedures regarding the reporting or monitoring of school-based funds.

  We are very concerned over the lack of control and accountability by the Board and the Department of Education over various types of ancillary funds including canteen sales, fund raising events, donations and scholarships.

- An accounts receivable of $7,020 for one employee was carried forward from a former board relating to various cash advances provided to the employee. Of this balance, $6,000 was for salary advances made in December 1996. The former board had no authority to provide salary advances.

This same employee was declared redundant in 1996 and in October 1996, received redundancy pay of $48,400. On October 17, 1996, this employee was rehired by the current Board and in accordance with Government policy was required to repay $41,100, of which $21,800 was owed to the current Board and $19,300 was owed to the Department of Education.

At 31 March 1998 this employee owed a total of $40,587 to the current Board and the Department of Education. This amount consisted of $8,973 owing to the current Board for various advances, $21,800 owing to the current Board for redundancy pay repayment and $9,814 owing to the Department of Education for redundancy pay repayment. The employee has been repaying the amount owing to the Department of Education at $250 each pay day and expects to have its account settled within a three year period. No interest is being charged by the Department or the current Board.

- Listings were not prepared for board office assets which were transferred to the current Board. Board staff stated that assets of the closed board offices were either brought to the new board office or relocated to the schools. Without capital asset listings the current Board could not demonstrate if all moveable assets were properly accounted for.

- Certain land and sites transferred from the former boards have been vested with the respective denominational authorities. Section 84 of the *Schools Act, 1997* provides guidance for the transfer, maintenance or disposition of such assets, depending on whether or not a denominational authority provided property or funds for the purchase, construction or maintenance of the property. At the time of our review discussions were being held between the denominational authorities and the current Board; however, no agreements had been entered into regarding the transfer, disposition or maintenance of the properties under question.

- During the first six months of operations of the current Board, the former boards' bank accounts were kept open to clear any 31 December 1996 reconciling items. During this time $2,444 in overdraft interest was charged for one former board's bank account, while the other board's bank account was carrying a large cash balance. These charges may have been avoided if the former bank accounts were consolidated at an earlier time as excess funds were available.

Financial Position

Inherent in the amalgamation of the 27 former school boards, we would expect to see certain economies of scale arising, especially in the administration budgets of the new school districts. We examined and compared the financial operations of the amalgamated former school boards to that of the current Board. Figure 2 provides an analysis of the financial operations of the dissolved school boards and the current Board.

3.10 District #9 - Avalon West School Board

Figure 2

District #9-Avalon West School Board
Financial Operations
For the Periods Ending

Financial Item	District #9 1 January 1997 - 30 June 1997	Former Boards 1 July 1996 - 31 December 1996	Total 1996-97	Former Boards 1995-96	Variance Increase(decrease)	
					Amount	%
Revenue						
Government Grants	$ 31,946,701	$ 28,896,644	$ 60,843,345	$ 63,753,410	$ (2,910,065)	(4.6)
Ancillary Services	76	8,861	8,937	35,760	(26,823)	(75.0)
Miscellaneous Revenue	283,561	469,243	752,804	1,126,756	(373,952)	(33.2)
Total Revenue	32,230,338	29,374,748	61,605,086	64,915,926	(3,310,840)	(5.1)
Expenditure						
Administration	1,099,540	879,050	1,978,590	2,370,130	(391,540)	(16.5)
Instructional	25,169,513	24,514,625	49,684,138	51,978,530	(2,294,392)	(4.4)
Operations & Maintenance	2,707,835	2,390,396	5,098,231	5,235,705	(137,474)	(2.6)
Pupil Transportation	2,523,643	1,613,880	4,137,523	4,331,456	(193,933)	(4.5)
Ancillary Services	0	25,508	25,508	50,933	(25,425)	(49.9)
Debt Charges	6,432	2,770	9,202	0	9,202	
Total Expenditure	31,506,963	29,426,229	60,933,192	63,966,754	(3,033,562)	(4.7)
Excess of Revenue over Expenditure	723,375	(51,481)	671,894	949,172	(277,278)	
Transfer from Reserve Account	0	100,000	100,000	1,677	98,323	
Transfer to Capital	(283,201)	(494,699)	(777,900)	(496,043)	(281,857)	
Increase (decrease) in Equity	$ 440,174	$ (446,180)	$ (6,006)	$ 454,806	$ (460,812)	

Source: Audited Financial Statements

As indicated in Figure 2, overall revenues declined by $3.3 million, or 5.1%, during 1996-97 as compared to 1995-96 while expenditures declined by $3.0 million, or 4.7%. A review of the new Board's financial position as at 30 June 1997 indicated that the current Board had a good working capital position and little long term debt.

Review of Expenditures

A review of the former boards' expenditures during the last six months of their operations and the current Board during its first six months was performed to determine if expenditure transactions were prudent and appropriate. Figure 3 outlines expenditures made by the boards that either were not provided for under the *Schools Act, 1997* or predecessor Acts or were not in accordance with government policy.

3.10 District #9 - Avalon West School Board

Figure 2

District #9-Avalon West School Board
Financial Operations
For the Periods Ending

Financial Item	District #9 1 January 1997 - 30 June 1997	Former Boards 1 July 1996 - 31 December 1996	Total 1996-97	Former Boards 1995-96	Variance Increase(decrease)	
					Amount	%
Revenue						
Government Grants	$ 31,946,701	$ 28,896,644	$ 60,843,345	$ 63,753,410	$ (2,910,065)	(4.6)
Ancillary Services	76	8,861	8,937	35,760	(26,823)	(75.0)
Miscellaneous Revenue	283,561	469,243	752,804	1,126,756	(373,952)	(33.2)
Total Revenue	32,230,338	29,374,748	61,605,086	64,915,926	(3,310,840)	(5.1)
Expenditure						
Administration	1,099,540	879,050	1,978,590	2,370,130	(391,540)	(16.5)
Instructional	25,169,513	24,514,625	49,684,138	51,978,530	(2,294,392)	(4.4)
Operations & Maintenance	2,707,835	2,390,396	5,098,231	5,235,705	(137,474)	(2.6)
Pupil Transportation	2,523,643	1,613,880	4,137,523	4,331,456	(193,933)	(4.5)
Ancillary Services	0	25,508	25,508	50,933	(25,425)	(49.9)
Debt Charges	6,432	2,770	9,202	0	9,202	
Total Expenditure	31,506,963	29,426,229	60,933,192	63,966,754	(3,033,562)	(4.7)
Excess of Revenue over Expenditure	723,375	(51,481)	671,894	949,172	(277,278)	
Transfer from Reserve Account	0	100,000	100,000	1,677	98,323	
Transfer to Capital	(283,201)	(494,699)	(777,900)	(496,043)	(281,857)	
Increase (decrease) in Equity	$ 440,174	$ (446,180)	$ (6,006)	$ 454,806	$ (460,812)	

Source: Audited Financial Statements

As indicated in Figure 2, overall revenues declined by $3.3 million, or 5.1%, during 1996-97 as compared to 1995-96 while expenditures declined by $3.0 million, or 4.7%. A review of the new Board's financial position as at 30 June 1997 indicated that the current Board had a good working capital position and little long term debt.

Review of Expenditures

A review of the former boards' expenditures during the last six months of their operations and the current Board during its first six months was performed to determine if expenditure transactions were prudent and appropriate. Figure 3 outlines expenditures made by the boards that either were not provided for under the *Schools Act, 1997* or predecessor Acts or were not in accordance with government policy.

Figure 3

District # 9-Avalon West School Board
Expenditures Without Authority
1996-97

Expenditure Description	Former Boards	Current Board	Total
Excess vacation payments	$ 8,755	$ -	$ 8,755
Retirement allowances	12,000	-	12,000
Dinners and socials	3,882	2,191	6,073
Gifts	4,782	7,512	12,294
Liquor and refreshments -socials/meetings	1,736	984	2,720
Lapel pins	-	4,834	4,834
Interior design and artwork	-	3,235	3,235
Travel allowances above Government policy (annualized)	20,705	913	21,618
Total expenditures without authority	$ 51,860	$ 19,669	$ 71,529

The following provides details of the above and other discretionary expenditure practices of the former boards and the current Board.

- The Department of Education directed that school boards were only to pay up to 50 days of unused vacation leave. However, a former board paid one of its redundant assistant superintendents $8,755 for 33 unused vacation days, in excess of the 50 unused vacation days allowed by the Department of Education.

- Two former staff were paid retirement gifts in December 1996 in addition to earned entitlement. One employee received $10,000 while the other received $2,000. These payments contravened government policy and are not permitted under the *Schools Act, 1997* or predecessor Acts. Neither of these payments were included on the employees' T-4. This was brought to the attention of Board staff and we were subsequently advised that T-4s were prepared.

- Christmas, year end and retirement dinners and associated gifts were common amongst the former boards and continued under the current Board. The former boards spent $3,882 for dinners/socials, $4,782 for gifts/presentations and $1,736 for liquor purchases for dinners/meetings. The current Board spent $2,191 for dinners/socials, $7,512 for gifts and $984 in liquor purchases.

- During its first six months, the current Board spent $4,834 for 2,500 lapel pins commemorating the current Board's name, $1,840 in interior design consulting fees for the current Board's new office renovations and $1,395 in various art work and portraits for the current Board office.

- The former boards paid vehicle allowances in excess of the Government's $85 per month approved allowance. One former board paid three of its executive staff a $150 per month car allowance and another executive $400 per month. The other former board paid an annual travel bonus of $2,125, payable $177 per month, to five of its executive, and an annual travel bonus of $3,600, payable $300 per month, to another executive. These bonuses were in addition to a $90 per month car allowance paid to these staff. The total annualized cost of providing these vehicle allowances in excess of Government's policy was $20,705.

  Although the current Board paid a $450 per month interim car allowance to one of the new Board's executive staff for a two and a half month period up to 01 January 1997, we note that the current Board is now complying with Government's policy and paying the $85 monthly car allowance.

3.10 District #9 - Avalon West School Board

- Both the former boards and the current Board allowed employees to charge personal expenditures to their boards' accounts. Personal items were either purchased on corporate credit cards or purchased by the boards on behalf of the employee. Although, the majority of these expenditures were recovered by the boards, the use of school board funds for the financing of personal transactions is not provided for under the *Schools Act, 1997* or predecessor Acts or Government policy. Our review identified the following:

    - One former board and the current Board ordered paint supplies on behalf of staff. Our review indicated four instances totaling $622 for the former board and one instance for $174 for the current Board. These purchases were later recovered when applied against an employees' travel claim.

    - $1,367 was spent by the current Board for three employees' spouses' travel/registration costs at three separate conferences. As of our review, $274 was still outstanding since January 1997 on one account.

- Departmental policy requires that employees who accept lower paying positions as a result of redundancy be treated in accordance with the voluntary demotion policy. This policy states that the rate of pay be established on the pay range of the new position at a rate that does not exceed the employee's present rate. The current Board paid a number of former employees at their old salary rate even though the positions and job duties of these employees changed. The current Board did not establish salary scales for the new positions as required by Government policy.

- In accordance with Government policy, employees who transfer between government organizations are required to transfer their earned leave entitlement and are not permitted to be paid for earned leave entitlement at the date of transfer. Our review indicated that both of the former boards paid some of its staff for unused vacation days even though these employees continued their employment with the current Board. One former board paid a total of $37,685 to seven employees for 197.5 days of unused vacation time, while the other former board paid $25,026 to five employees for 128.50 days.

Board's Response

No Response Provided.

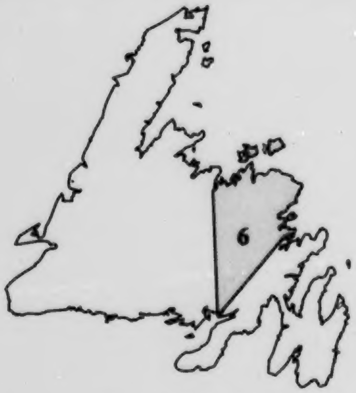
3.11 District #6 - Lewisporte/Gander School Board

Introduction

The District #6 - Lewisporte/Gander School Board (the Board) serves an area from Norris Arm in Notre Dame Bay to Charlottetown, Bonavista Bay. The Board was created in 1996 and absorbed all 39 schools served by the Notre Dame Integrated School Board and the Nova Consolidated School Board, which included nine joint service schools with the Gander-Bonavista-Connaigre Roman Catholic School Board and the Exploits-White Bay Roman Catholic School Board. It also took over one non-joint service school from the Gander-Bonavista-Connaigre Roman Catholic School Board and six schools operated by the Pentecostal Assemblies Board of Education. Upon its establishment, there were about 11,000 students in 46 schools with school enrolments ranging from 34 to 866. Figure 1 provides some general information pertaining to the current Board.

Figure 1

District #6-Lewisporte/Gander School Board
District Profile
1996-97



District #6 Statistics

Board Office:	Gander
Number of Schools:	44
Number of Students:	10,402
1996-97 Expenditures:	$53.7 million

Scope and Objectives

We conducted our review to determine whether the transfer of assets and liabilities from the former school boards to the current Board was timely, complete and appropriate. In performing this review we examined the financial position of the boards before and after amalgamation. In addition we reviewed expenditures to assess whether liabilities had been increased or assets reduced by inappropriate transactions during the transition period represented by the last six months of the former boards' operations (1 July 1996 to 31 December 1996) and the first six months of the current Board's operations (1 January 1997 to 30 June 1997).

Conclusions

Transfer of Assets and Liabilities

The financial assets and liabilities of the former boards as reported on their financial statements were properly recorded in the accounts of the current Board. However, certain trust funds and school-based funds have not been recorded on the current Board's financial statements as they were not recorded previously with the former boards. As a result, we are very concerned over the lack of control and accountability by the Board and the Department of Education over various types of ancillary funds including canteen sales, fund raising events, donations and scholarships. Adequate controls do not exist for the control of school-based funds to ensure that they are used for the purpose intended.

The current Board could not demonstrate whether all capital assets were properly accounted for since there were no listings of these assets. In addition, the ownership of schools vested with denominational authorities was still unresolved at the time of our review.

Financial Position

Overall the financial position of the current Board as at 30 June 1997 is favourable compared to the combined former boards' financial position as at 30 June 1996, mainly as a result of the Departments repayment of the former boards' long-term debt. Also, certain expenditures have been reduced, especially in the current Board's administration and pupil transportation budgets.

Review of Expenditures

The former boards have spent and the current Board continues to spend monies on such things as Christmas parties, retirement dinners, various staff gifts and retirement gifts, for which there is no authority under the *Schools Act, 1997* or predecessor Acts. The former boards spent $3,436 and the current Board spent $2,502 during the period under review.

The current Board has made certain expenditures which are not in accordance with government policy. These include the payment of unused vacation days for three staff of former boards, totalling $12,599, the red circling of salaries for two positions transferred from a former board at a total cost to the current Board at $29,814 over the next five years, and the overpayment of redundancy to one employee at a cost of $2,347.

Findings

Transfer of Assets and Liabilities

A review of the transfer of assets and liabilities from the former school boards to the current Board revealed that all closing balances of the former boards were properly set up in the accounts of the current Board. Our review of these balances indicated the following:

- During the first six months of operations of the current Board, the former boards' bank accounts were kept open to clear any 31 December 1996 reconciling items and to meet any debt obligations with those banks. During this time $665 in overdraft interest was charged for one former board while an increase in another board's operating line of credit of $43,000 was made to offset shortages as they arose. These charges and credit increase may have been avoided if the former bank accounts were consolidated at an earlier time as excess funds were available in other accounts.

- One of the former boards had a registered charity for scholarship purposes in the name of the school board. This trust fund was not reported on the financial statements of the former board. The directors of the charity were the chairman, secretary and the treasurer of the former board and the former business manager was the signing officer. This trust fund was not transferred over to the current Board and is still being administered by the former business manager in the name of the former school board's registered charity. In addition, only one authorization is needed for the disbursement of trust funds which weakens internal control. As at 31 December 1996, the charity had $1,676 in its account.

Other funds not recorded on the current Board's financial statements include school funds from such things as canteen sales and fund raising events. The Assistant Director-Finance stated that schools submit annual reports which provide certain financial information; however, for the most part school funds are not reported or monitored on a regular basis. The current Board does not have any policies or procedures regarding the reporting or monitoring of school-based funds to ensure these monies are spent for the purposes they were intended.

We are very concerned over the lack of control and accountability by the current Board and the Department of Education over various types of ancillary funds including canteen sales, fund raising events, donations and scholarships.

- Inconsistent purchasing policies exist with the current Board for the allocation of school-based budgets. One former board would issue cheques in the name of the former schools for their portion of their budget allocation for teaching aids and library resources. These monies would be deposited in the schools' account and the schools would be responsible for purchasing these items. This practice continued with the current Board but only for the former board's schools while schools from other former boards had to submit requisitions and purchase orders for approval. Inconsistent purchasing policies result in a loss of control over school-based purchases.

- Listings were not prepared for former board office assets which were transferred to the current Board's new office locations or schools. Board staff stated that assets of the closed board offices were either brought to the new office location or relocated to the schools. Without capital asset listings the current Board could not demonstrate if all moveable assets were properly accounted for.

- Certain land and sites transferred from the former school boards have been vested with the respective denominational authorities. Section 84 of the *Schools Act, 1997* provides guidance for the transfer, maintenance or disposition of such assets, depending on whether or not a religious denomination provided property or funds for the purchase, construction or maintenance of the property. At the time of our review discussions were being held between the denominational authorities and the current Board; however, no agreements had been entered into regarding the transfer, disposition or maintenance of these properties.

Financial Position

Inherent in the amalgamation of the 27 former school boards, we would expect to see certain economies of scale arising, especially in the administration budgets of the new school districts. We examined and compared the financial operations of the amalgamated former school boards to that of the current Board. Figure 2 provides an analysis of the financial operations of the dissolved school boards and the current Board.

As indicated in Figure 2, overall revenues declined by $2.1 million, or 3.7%, during 1996-97 as compared to 1995-96 while expenditures declined by $1.4 million , or 2.6%. This was offset by a $225,000 transfer from a reserve account of one of the former boards. As at 30 June 1997, the current Board's financial position was favourable. It reported a positive working capital position of $777,210, a positive cash balance of $1,037,676 and $361,693 in long term debt.

Figure 2

District #6 - Lewisporte/Gander School Board
Financial Operations
For the Periods Ending

Financial Item	District #6 1 January 1997 - 30 June 1997	Former Boards 1 July 1996 - 31 December 1996	Total 1996-97	Former Boards 1995-96	Variance Increase(decrease)	
					Amount	%
Revenue						
Government Grants	$ 27,482,782	$ 25,228,886	$ 52,711,668	$ 54,873,341	$ (2,161,673)	(3.9)
Donations	0	0	0	2,400	(2,400)	(100.0)
Ancillary Services	33,006	18,648	51,654	56,663	(5,009)	(8.8)
Miscellaneous Revenue	463,706	562,737	1,026,443	934,422	92,021	9.8
Total Revenue	**27,979,494**	**25,810,271**	**53,789,765**	**55,866,826**	**(2,077,061)**	**(3.7)**
Expenditure						
Administration	806,234	751,567	1,557,801	1,914,833	(357,032)	(18.6)
Instructional	21,846,180	20,705,656	42,551,836	43,288,360	(736,524)	(1.7)
Operations & Maintenance	2,648,237	2,375,053	5,023,290	4,838,598	184,692	3.8
Pupil Transportation	2,316,376	2,135,497	4,451,873	4,895,455	(443,582)	(9.1)
Ancillary Services	0	0	0	4,037	(4,037)	(100.0)
Miscellaneous	102	12,312	12,414	13,179	(765)	(5.8)
Debt Charges	28,962	62,943	91,905	150,581	(58,676)	(39.0)
Total Expenditure	**27,646,091**	**26,043,028**	**53,689,119**	**55,105,043**	**(1,415,924)**	**(2.6)**
Excess of Revenue over Expenditure	333,403	(232,757)	100,646	761,783	(661,137)	
Transfer from Reserve Account	0	225,000	225,000	0	225,000	
Transfer to Capital	(335,220)	(182,744)	(517,964)	(541,857)	23,893	
Increase (decrease) in Equity	$ (1,817)	$ (190,501)	$ (192,318)	$ 219,926	$ (412,244)	

Source: Audited Financial Statements

Review of Expenditures

A review of the former boards' expenditures during the last six months of their operations and the current Board during its first six months was performed to determine if expenditure transactions were prudent and appropriate. Figure 3 outlines expenditures made by the boards that either were not provided for under the *Schools Act, 1997* or predecessor Acts or were not in accordance with government policy.

Figure 2

District #6 - Lewisporte/Gander School Board
Financial Operations
For the Periods Ending

Financial Item	District #6 1 January 1997 - 30 June 1997	Former Boards 1 July 1996 - 31 December 1996	Total 1996-97	Former Boards 1995-96	Variance Increase(decrease)	
					Amount	%
Revenue						
Government Grants	$ 27,482,782	$ 25,228,886	$ 52,711,668	$ 54,873,341	$ (2,161,673)	(3.9)
Donations	0	0	0	2,400	(2,400)	(100.0)
Ancillary Services	33,006	18,648	51,654	56,663	(5,009)	(8.8)
Miscellaneous Revenue	463,706	562,737	1,026,443	934,422	92,021	9.8
Total Revenue	27,979,494	25,810,271	53,789,765	55,866,826	(2,077,061)	(3.7)
Expenditure						
Administration	806,234	751,567	1,557,801	1,914,833	(357,032)	(18.6)
Instructional	21,846,180	20,705,656	42,551,836	43,288,360	(736,524)	(1.7)
Operations & Maintenance	2,648,237	2,375,053	5,023,290	4,838,598	184,692	3.8
Pupil Transportation	2,316,376	2,135,497	4,451,873	4,895,455	(443,582)	(9.1)
Ancillary Services	0	0	0	4,037	(4,037)	(100.0)
Miscellaneous	102	12,312	12,414	13,179	(765)	(5.8)
Debt Charges	28,962	62,943	91,905	150,581	(58,676)	(39.0)
Total Expenditure	27,646,091	26,043,028	53,689,119	55,105,043	(1,415,924)	(2.6)
Excess of Revenue over Expenditure	333,403	(232,757)	100,646	761,783	(661,137)	
Transfer from Reserve Account	0	225,000	225,000	0	225,000	
Transfer to Capital	(335,220)	(182,744)	(517,964)	(541,857)	23,893	
Increase (decrease) in Equity	$ (1,817)	$ (190,501)	$ (192,318)	$ 219,926	$ (412,244)	

Source: Audited Financial Statements

Review of Expenditures

A review of the former boards' expenditures during the last six months of their operations and the current Board during its first six months was performed to determine if expenditure transactions were prudent and appropriate. Figure 3 outlines expenditures made by the boards that either were not provided for under the *Schools Act, 1997* or predecessor Acts or were not in accordance with government policy.

Figure 3

District #6 - Lewisporte/Gander School Board
Expenditures Without Authority
1996-97

Expenditure Description	Former Boards	Current Board	Total
Retirement dinners and gifts	$ 3,436	$ 2,502	$ 5,938
Excess redundancy		2,347	2,347
Red - circling		29,814	29,814
Total expenditures without authority	$ 3,436	$ 34,663	$ 38,099

Source: School Board Expenditure Records

The following provides details of the above and other discretionary expenditure practices of the former boards and the current Board.

- Christmas, year-end and retirement dinners and associated gifts were common amongst the former boards and continued under the current Board. The former boards spent $1,626 in dinners and $1,810 in gifts. The current Board spent $2,382 for various dinners and $120 for gifts during its first six months.

- A review of redundancy payouts of former board staff by the current Board highlighted an overpayment to one former employee of $2,347. In accordance with Departmental policy, redundancy pay for this employee was to be based on the redundancy grid using years of service and employee age. The current Board, however, chose to calculate the redundancy pay using 120% of annual salary.

- Departmental policy requires that employees who accept lower paying positions as a result of redundancy be treated in accordance with the voluntary demotion policy. This policy states that the rate of pay be established on the pay range of the new position at a rate that does not exceed the employees present rate. Our review identified two staff who transferred over to the current Board and had their salaries red circled and paid at their old pay scale even though their new positions were classified at a lower pay scale. The current Board acknowledged this at its 22 January 1997 meeting and approved a plan to reduce the annual pay of these two employees equally over the next five years, beginning in 01 July 1997 to the approved salary level per their new positions. The cost to the current Board over the next five years will be $29,814, excluding employer's remittances.

- The former boards allowed meals to be purchased without adequate documentation to support the purpose of the meal. We identified three such payments as follows: $153 on 6 September 1996, $258 on 30 September 1996 for seven people, and $302 on 29 October 1996. Without adequate supporting documentation, the former boards could not demonstrate whether these expenditures were legitimate business expenses.

- Three former board staff were paid for their unused vacation pay in the last six months of operations, even though they continued employment with the current Board. Payments made were for 135.5 hours at $2,608, 27.75 days at $6,008 and 20 days at $3,983. These unused vacation days should have been carried forward to the current Board.

Board's Response

No Response Provided.

3.12 District #1 - Labrador School Board

Introduction

The District # 1- Labrador School Board (the Board) serves all of Labrador except for a small portion located south of Norman Bay which is served by the District #2 school board. The Board was created in 1996 and absorbed the schools served by the Labrador East Integrated School Board, Labrador Roman Catholic School Board and the Labrador West Integrated School Board and one school operated by the Pentecostal Assemblies Board of Education. There were approximately 6,000 students in 22 schools upon the establishment of the Board with school enrolments ranging from 9 to 704. Figure 1 provides some general information regarding the school district.

Figure 1

District #1 - Labrador School Board
District Profile
1996-97

District #1 Statistics

Board Office:	Happy Valley-Goose Bay
Number of Schools:	22
Number of Students:	5,898
1996-97 Expenditures:	$32.0 million

Scope and Objectives

We conducted our review to determine whether the transfer of assets and liabilities from the former school boards to the current Board was timely, complete and appropriate. In performing this review we examined the financial position of the boards before and after amalgamation. In addition, we reviewed expenditures to assess whether liabilities had been increased or assets reduced by inappropriate transactions during the transition period represented by the last six months of the former boards' operations (1 July 1996 to 31 December 1996) and the first six months of the current Board's operations (1 January 1997 to 30 June 1997).

Conclusions

Transfer of Assets and Liabilities

The financial assets and liabilities of the former boards as reported on their financial statements were properly recorded in the accounts of the current Board. However, our review indicated a lack of detail, support and approval of numerous adjusting entries put through the current Board's accounts during the first two months. In addition, the financial assets and liabilities of the joint school bus committee, which administered and operated pupil transportation in western Labrador, were not transferred until four months after the former boards were dissolved.

School-based funds have not been recorded on the current Board's financial statements as they were not recorded previously with the former boards. As a result, we are very concerned over the lack of control and accountability by the current Board and the Department of Education over various types of ancillary funds including canteen sales, fund raising events, donations and scholarships. Adequate controls do not exist for the control of school-based funds to ensure that they are used for the purpose intended.

The current Board could not demonstrate whether all capital assets were properly accounted for since there were no listings of these assets. The ownership of schools vested with denominational authorities was still unresolved at the time of our review.

Financial Position

The current Board's financial position deteriorated during 1996-97. The current Board's debt increased from $187,000 as at 1 January 1997 to $904,000 as at 30 June 1997.

The *Schools Act, 1996* prohibited a board from incurring expenditures that are more than its estimated expenditure as set out in its annual budget without the approval of the Minister. The current Board contravened the *Schools Act, 1996* and failed to operate within its budget and incurred expenditures of $434,880 in excess of available funds for the period 01 January 1997 to 30 June 1997.

Review of Expenditures

The former boards expended and the current Board continues to spend monies on such things as Christmas parties, retirement dinners, various staff gifts and retirement gifts, for which there is no authority under the *Schools Act, 1997* or predecessor Acts. The former boards spent approximately $14,874 while the current Board spent $3,151 during the period under review.

One former board paid three senior staff vehicle allowances in excess of Government guidelines. Each of the three employees was paid a monthly vehicle allowance of $200. In addition, two of the three employees were paid an annual extraordinary travel allowance of $2,802 each while the third employee was paid an annual extraordinary travel allowance of $4,674. The maximum travel allowance provided under Provincial government guidelines is $85 per month. The current Board provides a $100 per month vehicle allowance for its executive staff.

Our review of the current Board indicated that the salaries of its four executive employees were topped up by $62,323 thereby placing all four above step 33 on the approved salary scales and contrary to the direction of Cabinet and the *Schools Act, 1997* or its predecessor Act.

Findings

Transfer of Assets and Liabilities

A review of the transfer of assets and liabilities from the former school boards to the current Board identified the following:

- Closing balances of the three former boards were properly set up on the accounts of the current Board; however, our review indicated a lack of detail, support and approval of numerous adjusting entries put through the current Board's accounts during the first two months. The current Board's external auditors also brought this to the attention of the Board in their management letter for the period ending 30 June 1997.

- The accounts of the Labrador West School Bus Committee, a joint committee of the Labrador West Integrated School Board and the Roman Catholic School Board for Labrador which was responsible for student transportation in western Labrador, were not transferred to the current Board until April 1997, four months after dissolution. The balance in the bank account at 1 January 1997 was in excess of $150,000.

- Adequate control and record keeping was not exercised over the filing and storage of former board records. Upon initial notification of our intended review, we were informed that the records of two former boards were not readily available as current Board administrators were unclear as to their location. At the time of our review, these records had been located.

- During the first six months of operations of the current Board, the former boards' bank accounts were kept open to clear any 31 December 1996 reconciling items. A review of these accounts did not highlight any unusual or unsupported transactions.

- None of the former boards reported any trust funds on its financial statements; however, schools had school based funds such as canteen and fundraising funds. Adequate controls do not exist with the current Board over the monitoring and reporting of these funds to ensure that these monies are spent for the purposes they were intended.

- In December 1996 certain accounts receivable were transferred over to the current Board. Although the current Board had a poor cash position, these receivables were not promptly collected. One former board transferred $18,940 in employee receivables relating to the board's purchase of computers on behalf of the employees and as at 30 June 1997, $4,540 was still outstanding on these accounts. Another former board transferred $19,637 in accounts receivable from a school relating to computers purchased for that school by the board and as at 30 June 1997, this amount was still outstanding.

- Listings were not prepared for former board office assets which were transferred to the current Board's new office locations or schools. We note that the former board office in Happy Valley-Goose Bay remained as the current Board's headquarters; however, one of the two board offices in Labrador City and Wabush was closed. Current Board staff stated that assets of the closed board office were either brought to the new office location or relocated to the schools. Without capital asset listings the current Board could not demonstrate if all moveable assets were properly accounted for.

- Certain land and sites transferred from the former school boards have been vested with the respective denominational authorities. Section 84 of the *Schools Act, 1997* provides guidance for the transfer, maintenance or disposition of such assets, depending on whether or not a denominational authority provided property or funds for the purchase, construction or maintenance of the property. At the time of our review discussions were being held between the denominational authorities and the current Board; however, no agreements had been entered into regarding the transfer, disposition or maintenance of these properties.

Financial Position

Inherent in the amalgamation of the 27 former school boards, we would expect to see certain economies of scale arising, especially in the administration budgets of the new school districts. We examined and compared the financial operations of the amalgamated former school boards to that of the current Board. Figure 2 provides an analysis of the financial operations of the dissolved school boards and the current Board.

Figure 2

District #1-Labrador School Board
Financial Operations
For the Periods Ending

Financial Item	District #1 1 January 1997 - 30 June 1997	Former Boards 1 July 1996 - 31 December 1996	Total 1996-97	Former Boards 1995-96	Variance Increase(decrease)	
					Amount	%
Revenue						
Government Grants	$ 15,541,134	$ 13,743,515	$ 29,284,649	$ 31,484,309	$ (2,199,660)	(7.0)
Ancillary Services	254,293	315,074	569,367	651,653	(82,286)	(12.6)
Miscellaneous Revenue	736,447	971,488	1,707,935	1,775,802	(67,867)	(3.8)
Total Revenue	16,531,874	15,030,077	31,561,951	33,911,764	(2,349,813)	(6.9)
Expenditure						
Administration	1,077,242	781,751	1,858,993	1,970,827	(111,834)	(5.7)
Instructional	13,199,524	11,630,471	24,829,995	26,998,893	(2,168,898)	(8.0)
Operations & Maintenance	1,574,435	1,582,309	3,156,744	2,992,439	164,305	5.5
Pupil Transportation	1,039,304	705,394	1,744,698	1,974,149	(229,451)	(11.6)
Ancillary Services	67,028	295,011	362,039	188,374	173,665	92.2
Debt Charges	9,221	7,854	17,075	13,534	3,541	26.2
Total Expenditure	16,966,754	15,002,790	31,969,544	34,138,216	(2,168,672)	(6.4)
Excess of Revenue over Expenditure	(434,880)	27,287	(407,593)	(226,452)	(181,141)	
Transfer from (to) Capital	(32,624)	18,729	(13,895)	237,418	(251,313)	
Increase (decrease) in Equity	$ (467,504)	$ 46,016	$ (421,488)	$ 10,966	$ (432,454)	

Source: Audited Financial Statements

The current Board's financial position for the first six months of operations from 1 January 1997 to 30 June 1997 deteriorated significantly, which when combined with the former boards' operations for the period 1 July 1996 to 31 December 1996, resulted in a poor financial performance for the full fiscal year. As indicated in Figure 2, overall revenues declined by $2.35 million, or 6.9%, during 1996-97 as compared to 1995-96 while expenditures declined by $2.17 million, 6.4%. In order to fund its deficit, the Board increased its bank indebtedness from $187,401 as at 1 January 1997 to $904,440 as at 30 June 1997.

The Department of Education, in a letter dated 23 July 1997, expressed their extreme concern over the current Board's cash position and its accumulated operating deficit and indicated that the current Board was not in compliance with the *Schools Act, 1996*, which prohibits a board from incurring expenditures that are more than its estimated expenditure as set out in its annual budget. The Department requested explanations for the high deficit and a financial plan to resolve the current Board's poor cash position. The current Board submitted its financial plan to the Department for review and approval and provided explanations for its deficit during its first six months.

3.12 District #1 - Labrador School Board

Figure 2

District #1-Labrador School Board
Financial Operations
For the Periods Ending

Financial Item	District #1 1 January 1997 - 30 June 1997	Former Boards 1 July 1996 - 31 December 1996	Total 1996-97	Former Boards 1995-96	Variance Increase(decrease)	
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Review of Expenditures

A review of the former boards' expenditures during the last six months of their operations and the current Board during its first six months was performed to determine if expenditure transactions were prudent and appropriate. Figure 3 outlines expenditures made by the boards that either were not provided for under the *Schools Act, 1997* or predecessor Acts or were not in accordance with Government policy.

Figure 3

District # 1 - Labrador School Board
Expenditures Without Authority

Expenditure Description	Former Boards	Current Board	Total
Retirement dinners and gifts	$ 14,874	$ 3,151	$ 18,025
Travel allowances above government policy (annualized)	14,418	720	15,138
Reimbursement for lost wages	326	7,822	8,148
Salary top-up		62,323	62,323
Total expenditures without authority	$ 29,618	$ 74,016	$103,634

Source: School Board Expenditure Records

The following provides details of the above and other discretionary expenditure practices of the former boards and the current Board.

- Christmas, year-end and retirement dinners and associated gifts were common amongst the former boards and continued under the current Board. The former boards spent $10,078 for various dinners/socials, $3,590 in gifts/ presentations and $1,206 in travel costs to attend dinners. The current Board spent $2,663 for dinners/socials and $488 in various retirement gifts.

- One former board paid vehicle allowances in excess of Government policy to three of its senior staff. Each of the three employees was paid a monthly vehicle allowances of $200. In addition, two of the three employees were paid an annual extraordinary travel allowance of $2,802 each while the third employee was paid an annual extraordinary travel allowance of $4,674. These allowances equated to a total cost of $17,478 per year for the three staff. The maximum travel allowance provided under Government guidelines is $85 per month, or $3,060 for three staff.

  The current Board provides a $100 per month vehicle allowance for its executive staff. This equates to an overpayment of $720 annually.

- The *Schools Act, 1997* and predecessor Acts states that board members shall serve without remuneration. We found one instance where a former board reimbursed one of its board members at a cost of $326, while the current Board reimbursed seven of its Board members a total of $7,822 in lost wages from February 1997 to February 1998.

- The executive staff, consisting of the Director and three Assistant Director positions for the current Board, are required to be paid using salary scales approved by the Lieutenant-Governor in Council. The Minister of Education communicated the approved salary scales to the district school boards on 25 October 1996 and at that time indicated that the boards did not have the authority to "top up" the approved salaries. However, in a letter dated 15 November 1996 to the executive director of the Newfoundland and Labrador School Boards' Association, the Minister provided flexibility to the boards in placing executive staff at a step on the approved scale not in excess of step 25 as long as the boards had other funds to pay these salaries.

Our review of the current Board indicated that the salaries of its four executive employees, two in Labrador City and two in Happy Valley-Goose Bay, were topped up by $62,323 thereby placing all four above step 33 on the approved salary scales and contrary to the direction of Cabinet and the *Schools Act, 1997* or its predecessor Act. Staff indicated that some of these additional salaries were provided from grants of $1.4 million received from two mining companies operating in Labrador city and Wabush. The *Schools Act, 1997* or its predecessor Act does not provide for any additional salaries from external funds for school board executive.

Board's Response

Transfer of Assets and Liabilities

The Labrador School Board has noted that the financial assets and liabilities of the former Boards were properly recorded in the accounts of the current Board.

The lack of detail, support and approval of numerous adjusting entries put through the current Board's accounts during the first two months is attributable to a change of personnel in the Finance Office, and period of time when the position of Assistant Director - Finance & Administration was vacant. This situation did not stabilize until May, 1997.

The financial assets and liabilities of the joint school bus committee, which administered and operated pupil transportation in Labrador West were not transferred until four months after the former Boards were dissolved. It was deemed necessary to have our financial affairs in order before these assets and liabilities were integrated. That transfer has been successful.

The adequate control and record keeping exercised over the filing and storage of former Board records has received attention, and some of the work required remains ongoing. All records are located, some consolidation has occurred, and a final cleaning out and relocation of files will be completed during the current school year. The fiscal and human resources required to complete this task in an efficient and timely manner have not been available to the Board.

School-based funds are, to date, not recorded on the current Board's financial statements. The Board shares the concern expressed over the lack of control and accountability over various types of ancillary funds. There is an active discussion focused on an appropriate accounting procedure for these funds, with the objective of implementing procedures in the 1999-2000 Fiscal Year.

Certain accounts receivable were transferred over to the current Board. One former Board did transfer $18,940.00 in employee receivables relating to the Board's purchase of computers on behalf of the employees, and as at June 30, 1997, $4,540.00 was still outstanding. This outstanding balance has been paid in full.

Another former Board did transfer $19,637.00 in accounts receivable from a school relating to computers purchased for that school by the Board. As at June 30, 1997, this amount was still outstanding, and it remains outstanding at present. The Labrador School Board will address this outstanding receivable in the 1999-2000 Fiscal Year, and will not engage in arrangements whereby the Board may either have receivables outstanding for an extended period of time, or may have to assume responsibility for such liabilities.

The Board is unable to demonstrate that all capital assets are properly accounted for, as the Board does not have the fiscal and human resources required to complete this task. During the 1997-98 School Year, the Board was able to develop a listing of all computer hardware and software through funding from Human Resources Development Canada.

Listings were not prepared for former Board Office assets which were transferred to the current Board's new office locations or schools. This action is reflective of the Board's ongoing inability to identify the fiscal and human resources required to develop a capital assets ledger. All assets were redistributed to the new office location or to schools.

The ownership of schools vested with denominational authorities remains unresolved. The Board, however, has not experienced any problems in this area.

3.12 District #1 - Labrador School Board

Financial Position

The Board was unable to operate within its Budget during the transition period January 1, 1997 to June 30, 1997, and incurred expenses in the areas of travel, the reorganization of schools, and renovations to facilities. The Board acknowledges its contravention of the Schools Act, 1996.

The Labrador School Board has noted that it has submitted its financial plan to the Department of Education for review and approval, and did provide explanations for its deficit during its first six months.

Review of Expenditures

The former Boards, and the current Board did spend monies to recognize its professional and support staff, and acknowledges that there is no authority to do so under the Schools Act, 1997, or predecessor Acts. The Board was able to significantly reduce the expenditure in this area, during the January 1, 1997 to June 30, 1997 period, and has continued to closely monitor this particular area of expenditure in order to comply with the Legislation.

All vehicle allowances have been discontinued. The current Board did provide a $100.00 per month vehicle allowance for its Executive Staff. This amount was comprised of the maximum travel allowance of $85.00 provided under Provincial Government Guidelines, plus a $15.00 mileage allowance. This arrangement was with the concurrence of the Members of the Executive Staff, who preferred to not have to keep track of mileage given the distances available for driving in Labrador. The Board now complies with the Provincial Government Guideline of $85.00 per month, and requires the members of the Executive Staff to submit mileage claims. This arrangement, as required, now results in an increased expenditure in travel allowances.

The Labrador School Board did reimburse Board Members for lost wages. The Schools Act, 1997 and predecessor Acts state that Board Members shall serve without remuneration, and the Board is now complying with this Legislation.

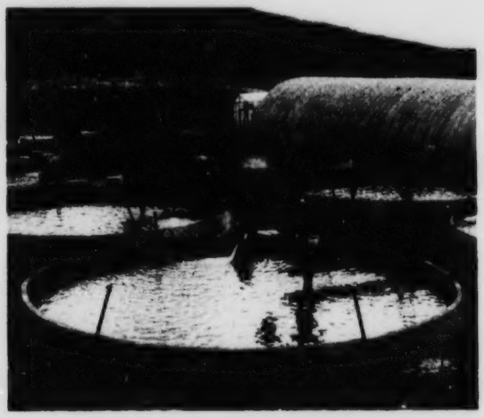
The salaries of the four Executive employees were topped up by $62,323.80, thereby placing all four above Step 33 on the approved salary scales. Two of these employees had their salaries red circled, as they were already above the salary level at Step 33. The salaries of Executive employees with the Labrador School Board include a differential paid to all employees working in Labrador West. The differential accounts for the significant portion of the topped up amount. The Board did allocate funds to the salaries of its four Executive employees to address an appropriate range of salaries between the positions of Director and Assistant Director, given that the salaries of two Assistant Directors were red circled at a level that would be higher than that generated for the position of Director by the approved salary scales.

Department of Fisheries and Aquaculture

Introduction

The Department of Fisheries and Aquaculture has a primary mandate to promote the ongoing development of marine fisheries and the aquaculture industry. Policies and programs have been developed to support this mandate in harvesting, processing and marketing.

Aquaculture means the cultivation of aquatic plants or animals. In Newfoundland, aquaculture activity relates to finfish and shellfish cultivation. Finfish includes such species as steelhead trout, Atlantic salmon, arctic char, cod, and rainbow trout. Shellfish includes such species as blue mussels and scallops.



Fish Hatchery at Bay D'Espoir

The Canada/Newfoundland Memorandum of Understanding on Aquaculture Development, signed on 22 February 1988, assigned responsibility for the licensing and regulation of the aquaculture industry within the Province to the Government of Newfoundland. To govern the aquaculture industry, the Province introduced the *Aquaculture Act* which was amended in 1994. The purpose, as stated in the Act, is *"... to govern the conduct of aquaculture in the province..."* and in particular, to promote the prudent and orderly development of an aquaculture industry. *Aquaculture Regulations* were introduced in 1988 and were consolidated under the Consolidated Newfoundland Regulations in 1996.

The Canada-Newfoundland Economic Renewal Agreement (ERA) was signed on 20 June 1996. The agreement is between the federal and provincial governments and covers the period 1 April 1996 through 31 March 2001. Its purpose *"...is to increase opportunities for economic development in Newfoundland and, specifically, to enhance growth of earned incomes and employment opportunities in the province."* The primary focus of the agreement is on tourism, aquaculture and advanced technology. Funding under the ERA totals $100 million, cost-shared between the federal government ($80 million) and the provincial government ($20 million). A total of $20 million has been allocated under the ERA for development of the aquaculture industry.

Within the Department, the Aquaculture Branch is responsible for the Aquaculture Program and the aquaculture portion of the ERA. The Aquaculture Branch has three divisions: Licensing and Administration; Aquaculture Development-Finfish; and Aquaculture Development - Shellfish.

Total expenditures voted for the Aquaculture Branch of the Department for the year ended 31 March 1998 were $9,020,500. Twenty-two staff positions are assigned directly to the Aquaculture Development Branch with several other Departmental staff providing related support services.

There were 231 aquaculture licences issued for the 1997 year. Licences are for a one year period and expire on 31 December of the year in which they are issued. There are three classes of licence: research; developmental; and commercial. Each of these can be described as follows:

- Research - for use by research institutions of government or companies, for the non-commercial culture of any species. Of the 231 licences issued for the 1997 year, 28 related to the research class.
- Developmental - for use by prospective commercial aquaculturists in assessing site potential prior to entering a full scale commercial operation. Of the 231 licences issued for the 1997 year, 82 related to the developmental class.

- Commercial - for use by bona fide aquaculturists who are harvesting and marketing aquaculture products and who have determined that their site is suitable for commercial development. Of the 231 licences issued for the 1997 year, 121 related to the commercial class.

Scope and Objectives

We completed our review of the Aquaculture Program in April 1998 and the aquaculture component of the Canada-Newfoundland Economic Renewal Agreement in September 1998. Our objectives were to:

- determine the nature and objectives of the Aquaculture Program;
- determine whether the Department is complying with the *Aquaculture Act* and Regulations;
- assess whether performance objectives and indicators have been developed to measure success towards achieving the program objectives of the Aquaculture program, and whether related policies, procedures, monitoring and reporting mechanisms have been established;
- identify how the Department is held accountable for the Program;
- review how licences are granted including how the Department monitors and inspects licensed sites; and
- determine and review expenditures under the Canada-Newfoundland Economic Renewal Agreement in terms of their nature, including the intended objectives of the expenditures, how funding was monitored, and how the Department is held accountable for the funding.

Conclusions

Nature of the Aquaculture Program

There has been little advancement over the last ten years in terms of the level of activity and significance of production levels achieved. While the number of licences is slowly increasing, the number of productive, utilized sites remains small, with the province lagging behind the other Atlantic provinces in the volume and value of aquaculture production. This fact was recognized by both the Federal and Provincial governments during negotiations leading to the signing of the Canada-Newfoundland Economic Renewal Agreement in June 1996.

Newfoundland is behind the other Atlantic provinces and British Columbia in terms of production levels and values, and other than Prince Edward Island, has the lowest production value per tonne produced.

Information required to assess the potential viability of aquaculture activities proposed by applicants for aquaculture licences was not always present in Department files.

The lack of required licensing documentation and related analysis, coupled with the inspection and monitoring problems referenced in this report, are contributing factors in the lack of development of the aquaculture industry.

Compliance with the *Aquaculture Act* and Regulations

There was compliance with most provisions of the *Aquaculture Act* and Regulations. Exceptions were noted relating to licensing and inspection.

Program Objectives and Peformance Indicators

Our review disclosed that systems used to collect data to measure progress towards achieving the Department's objectives were not adequate. In particular, data submitted by the licensee during licence renewals is not received in a timely manner and is not checked for accuracy.

In 1995, Cabinet approved the redevelopment of the former provincial fish plant in Belleoram into a scallop hatchery. The intent, as stated in the Cabinet approval, was to establish the hatchery but to privatize it as soon as possible. This has not been done to date. Cabinet ordered that after the first year of operation, a report be made on the options and feasibility of attracting the private sector to assume operations of the hatchery. The Department indicated that this report was never made to Cabinet.

As at 31 March 1998, a total of $1.5 million had been spent in capital and operating costs. A review of sales information maintained at the Department at the time of our review indicated that net sales totalled $5,000.

Accountability and Reporting

There is no legislative requirement for reporting to the House of Assembly on the results of the Aquaculture Program. The last annual departmental report submitted to the House of Assembly was in 1993. There was no reporting in 1994 or 1995 with a report being prepared for 1996 for internal purposes only. At the time of our review, the Department indicated that a 1997 report would be prepared during 1998.

Accountability reporting by licensees to the Department and related monitoring by the Department is not adequate. In particular, data is not received on a timely basis from licensees, and information submitted with annual returns is not formally checked during the inspection process.

Licensing and Inspection Process

Compliance with the Aquaculture Licensing Policy and Procedures Manual was lacking in several areas of licensing and inspection, and required documentation was absent. Information to support whether an applicant met the requirements for an aquaculture licence was not adequate.

In reviewing documentation for one licensee, it was noted that during the year ended 31 March 1998, Government authorized the issuance of a loan guarantee to the licensee. As at 31 March 1998, the limit of the loan guarantee was $5,000,000 with a current liability of $3,850,000. Government has included a provision in its financial statements for the year ended 31 March 1998, to reflect the probable loss to be incurred relating to this loan guarantee. In July 1998, Government authorized an increase of the limit for the loan guarantee to $6,000,000. In September 1998, the Department requested that Cabinet approve a further increase in this loan guarantee to $6,700,000.

Our review of the licensing process indicated that application turnaround time exceeded the Department's documented time frames. Turnaround time for applications for which there was no reasonable reason documented for the delay, ranged from 175 days up to 317 days. In many cases, the Department could not demonstrate that the applicant was notified of reasons for the delay.

There are no operational plans with regard to inspection frequency targets and timing.

Expenditure under the Canada-Newfoundland Economic Renewal Agreement

Authorization forms completed for the projects reviewed did not provide complete details of the proposed projects as required under the Agreement.

Problems were noted with expenditures made by the Department in connection with projects reviewed. Some of the expenditures claimed by the contracting parties were not adequately supported.

Approved projects were not adequately monitored.

Findings and Recommendations

Nature of the Aquaculture Program

The Province first became involved in the aquaculture area in 1988 with the signing of the Memorandum of Understanding between the Province and the Federal Government. This Memorandum of Understanding established a regime for governing the promotion, development and regulation of an aquaculture industry in the

Province. A full ten years later, there has been little advancement in terms of the level of activity and significance of production levels achieved. While the number of licences is slowly increasing, the number of productive, utilized sites is small.

This fact was recognized by both the Federal and Provincial governments during negotiations leading to the signing of the Canada-Newfoundland Economic Renewal Agreement (ERA). Schedule B of the agreement deals with the aquaculture program under the ERA. In referencing economic prospects with regard to aquaculture within the Province, it is recognized that *"The Newfoundland aquaculture industry has been growing slowly but steadily. The province lags the other Atlantic Provinces in the volume and value of aquaculture production, however, potential exists for further development."*

Salmon Farm at Bay D'Espoir

Figure 1 shows the number of licences issued in each of the last five years along with related production and employment statistics. Statistics relating to production and employment are gathered each year by the Department when licence renewal applications are received.

Figure 1

Aquaculture Program
Licences Issued
Years Ending 31 December

Year	Licences Issued	Production (tonnes)	Value ($ 000's)	Employment
1993	147	461	1,360	315
1994	111	859	2,100	333
1995	158	1,015	3,474	285
1996	210	1,710	6,173	502
1997	231	1,777	5,076	471

Source: Department of Fisheries and Aquaculture

Figure 2 shows the 1997 production levels and related value for aquaculture in this Province compared to other provinces involved with aquaculture. This information was obtained from statistics maintained by the Department of Fisheries and Oceans as reported by the various provinces. As Figure 2 indicates, Newfoundland is behind the other Atlantic provinces and British Columbia in terms of production levels and values, and other than Prince Edward Island, has the lowest production value per tonne produced. Information for 1997 was identified by the Department of Fisheries and Oceans as being preliminary; however, a review of 1996 statistics disclosed similar findings.

Figure 2

Provincial Aquaculture Production Levels and Values For the Year Ended 31 December 1997

Province	Production (tonnes)	% of Total Production	Value ($ millions)	% of Total Value	Value per Tonne ($)
Newfoundland	1,777	2.0	5.1	1.3	2,859
New Brunswick	18,987	21.8	139.7	36.0	7,358
Nova Scotia	2,631	3.0	11.1	2.8	4,218
Prince Edward Island	11,524	13.2	16.1	4.2	1,397
British Columbia	46,208	53.0	184.6	47.6	3,995
Other Provinces	6,112	7.0	31.4	8.1	5,137
Total	87,239	100.00	388.0	100.00	4,448

Source: Department of Fisheries and Aquaculture for Newfoundland statistics
Department of Fisheries and Oceans for other provinces' statistics

Compliance with the *Aquaculture Act* and Regulations

A review of compliance with the *Aquaculture Act* and Regulations revealed that most provisions were complied with. The exceptions noted related to the licensing and inspection documentation. Similar issues with licensing and inspections were noted in testing for compliance with the Aquaculture Licensing Policy and Procedures Manual. These issues are dealt with in more detail in the Licensing and Inspection section of this report.

Recommendation

The Department should review its activities with regard to complying with the objectives of the Aquaculture Act.

Program Objectives and Performance Indicators

1. Aquaculture Production

A review of program objectives set by the Department in relation to the Canada-Newfoundland Economic Renewal Agreement, disclosed that the objective is to increase aquaculture production by the Year 2000, to 9,500 metric tonnes, expanding to 20,000 by 2005. Production value at year 2000 is expected to be approximately $60 million with 900 jobs created - 600 resulting from direct employment in aquaculture operations and 300 resulting from indirect employment in the provision of supplies and services to the industry. As well, a significant increase in the number of commercial species is expected from the 3 in 1995 - salmon, steelhead trout and blue mussels.

Statistics for 1997 indicated that production was 1,777 tonnes valued at $5.1 million. As well, for 1997, there were 8 species for which licences were granted - arctic char, Atlantic cod, Atlantic salmon, blue mussels, giant scallop, rainbow trout, speckled trout and steelhead trout. While some progress has been made in terms of the number of species and the number of jobs, the production objectives for the year 2000 appear to be optimistic.

The late receipt of licence renewals, some still outstanding at audit date, pose several concerns. One concern is the illegal operation of unlicensed facilities. Another is the lack of timely monitoring of the industry due to delays in receiving statistics provided with renewal applications. In the case of licence renewals for licences that were due to expire on 31 December 1996, the Department was primarily at fault for the delay due to renewal documents not being forwarded to applicants until 9 December 1996.

2. Belleoram Scallop Hatchery

In 1995, Cabinet approved the redevelopment of the former provincial fish plant in Belleoram into a scallop hatchery. This initiative was based on a need for scallop spat (seed) to promote scallop development in the Province, as recommended by the Department. The intent, as stated in the Cabinet approval, was to establish the hatchery but to privatize it as soon as possible. This has not been done to date. Cabinet ordered that after the first year of operation, a report be made on the options and feasibility of attracting the private sector to assume operations of the hatchery. The Department indicated that this report was never made to Cabinet.

As at 31 March 1998, a total of $1.5 million had been spent in capital and operating costs. A review of sales information maintained at the Department at the time of our review indicated that net sales totalled $5,000.

The original estimate for capital costs to convert the former fish plant was $547,000. This estimate was later revised to $765,000 with actual costs of $917,000.

In May 1995, an agreement was reached with a company headed by the holder of a patent for hatchery technology, to manage the hatchery for government until it could be privatized.

The agreement with the company provided for the Department to cover operating costs. When the Canada-Newfoundland Economic Renewal Agreement was signed; however, costs were charged to a project approved for this purpose under the Agreement. This resulted in Federal-Provincial funding being used rather than Provincial alone, and effectively has extended the Province's involvement with hatchery operations to 31 March 1999. Department officials have indicated that they will wait until then to decide the fate of the hatchery.

Production targets were expected to be 7.5 million spat for 1995, the first year of operation and 15 million spat in 1996, the second year. Actual production was approximately 3 million spat in 1995 and was similarly low for 1996. Documentation supporting the low production rate indicated there were overwintering problems due to the late start of production in 1995 and also due to the small size of the spat in relation to expectations. In 1997, there were further production problems due to a major problem with larvae mortality rates in the 80% range. Discussions with Department officials indicate that production levels are expected to increase substantially during 1998.

To date, there has been only one sale of spat. In November 1995, a sale was made for $25,000. $20,000 of this sale had to be refunded due to quality problems with the spat.

Recommendation

The Department should comply with Cabinet's direction with regard to the operations of the Belleoram scallop hatchery.

Accountability and Reporting

There is no legislative requirement for the Department to report to the House of Assembly on aquaculture activities. The last annual departmental report to the House of Assembly was in 1993. There was no reporting in 1994 or 1995, with a report being prepared for 1996 for internal purposes only. The Department advised that it expected a report for the 1997 year to be completed during 1998.

As noted in an earlier section of this report, our review disclosed that problems exist with respect to data collection and statistics development at the Department. In particular, data is not received on a timely basis from licensees and information submitted with annual returns is not formally checked during the inspection process.

Recommendation

The Department should provide information to the House of Assembly on its activities with regard to the objectives of the Aquaculture program.

Licensing and Inspection Process

1. Licensing

In applying for an aquaculture licence, there are certain requirements that must be met before a licence may be issued. These requirements are included in the Department's Aquaculture Licensing Policy and Procedures Manual and are summarized in the Aquaculture Guide distributed to potential applicants by the Department. The Aquaculture Licensing Policy and Procedures Manual was not finalized and adopted until January 1998. The original draft of this manual was dated January 1996.

General requirements include: the availability of technical competence; an analysis of financial capability, including a five year business plan, proforma financial statements and quarterly cash flow projections; site location information together with documentation supporting legal access to the proposed location; and production, marketing and other technical information. As well, all applications for aquaculture licences are subject to an interagency review coordinated by the Department, for purposes of ensuring the protection of the environment, public health, and the rights and interests of other users in the area of the proposed location. These agencies include the departments of: Environment and Labour; Government Services and Lands; Health and Community Services; Tourism, Culture and Recreation; and Municipal and Provincial Affairs. As well, referrals are made to the federal departments of Fisheries and Oceans, Environment Canada and the Canadian Coast Guard.

A sample of 35 licences for the 1997 year was selected for review. The sample was selected based on the percentage of each class of licence issued for 1997. Our review of these licences indicated that in most of the files examined, there was inadequate information to support whether the applicant had met the applicable requirements for an aquaculture licence as outlined above.

In reviewing documentation for one licensee, it was noted that during the year ended 31 March 1998, Government authorized the issuance of a loan guarantee to the licensee. As at 31 March 1998, the limit of the loan guarantee was $5,000,000 with a current liability of $3,850,000. Government has included a provision in its financial statements for the year ended 31 March 1998, to reflect the probable loss to be incurred relating to this loan guarantee. In July 1998, Government authorized an increase of the limit for the loan guarantee to $6,000,000. In September 1998, the Department requested that Cabinet approve a further increase in this loan guarantee to $6,700,000. It was noted that an Assistant Deputy Minister of the Department is a Director of the same company, representing Government's interest.

Government's Strategic Economic Plan called for streamlining the format for applications for new licences within the aquaculture industry. In January 1994, the Department conducted a review of the Province's aquaculture licensing system. One area addressed in the review was the delay associated with the assessment of applications.

The recommendations in the Departmental review included a requirement that applications of a typical nature should have a maximum two month turnaround time commencing from the date the application is received by the Department. For more complex applications, applicants should be notified of the likely turnaround time. The Department, in its Aquaculture Licensing Policy and Procedures Manual provides that applications of a typical nature, will have on average a three month turnaround time from the date the application is received to the date the licence is issued. It is further stated in the manual that where an application is delayed beyond the predetermined turnaround time, the Department will initiate regular communications with the applicant.

Our review of the licensing process indicated that for the sample of 35 licence applications tested, application turnaround time exceeded 90 days in 25 of the 35 cases. Turnaround time for applications for which there was no reasonable reason documented for the delay, ranged from 175 days up to 317 days. In 24 of the 25 cases, the Department could not demonstrate that the applicant was notified of reasons for the delay.

2. Inspections

Under section 4.3 of the Aquaculture Licensing Policy and Procedures Manual, *"The Department will inspect aquaculture facilities in the following circumstances:*

- *after an application has been received and before presentation of the application to the Licensing Committee;*
- *after initial placement of gear and marker buoys at site;*
- *as deemed necessary to ensure compliance with the Aquaculture Act;*
- *upon change in status from Developmental Licence to Commercial Licence;*
- *upon change in ownership; and*
- *in the event of a fish health/environmental problem."*

The inspection report is not adequate to support the inspection activities for which the inspector is responsible. In particular, the existing inspection report does not require or provide space for the inspector to conclude on the several areas required to be assessed during the inspection process. These requirements, as provided for under section 6 of the *Aquaculture Act*, include an assessment of: the presence of disease or parasites and the likelihood of either disease or parasites developing; the adequacy of measures being taken to ensure aquatic plants or animals being cultured do not escape; whether the activities being carried on are authorized by and are in accordance with an aquaculture licence; and compliance with the terms, conditions and provisions of the aquaculture licence, Act and Regulations. As well, the inspection report does not provide for the inspector to report or conclude on their findings with respect to whether aquaculture is conducted with due diligence, in a reasonable manner, and in accordance with good husbandry practices. One benefit which could result if the Department were to be more consistent in enforcement, inspection and monitoring would be in identifying and targeting currently unproductive or underutilised sites for assistance or possible transfer to more productive applicants.

Our review of a sample of 34 files disclosed that in many instances, there was no evidence of an inspection having been completed when the site was being considered for licensing, when gear and marker buoys were placed at the site and when an application was made by the applicant for a change in licence status. As well, in several files for which an inspection had been completed, there was no evidence of the inspection report being signed by the licensee to acknowledge receipt of the inspection results.

In reviewing the files, there was also no evidence that surprise routine inspections were being conducted by the Department to ensure compliance with the terms and conditions of the licence and the *Aquaculture Act* and Regulations. Notice is provided to licensee when an inspection is to be conducted. While this is partly due to the remoteness of some locations and the fact that some of the licence holders may not be on site continuously, there are obvious disadvantages associated with advance notice of planned inspections.

Our review also indicated that there are no formal annual operational plans with regard to inspection frequency targets and timing. Planning and scheduling of inspection activity is necessary to ensure the Department meets its objectives as detailed in the *Aquaculture Act* and the Aquaculture Licensing Policy and Procedures Manual.

3.13 Aquaculture Program

Recommendations

All information required to be received in support of an application for an aquaculture licence should be received and assessed prior to a licence being approved.

The Department should address the delays in application turnaround time relating to the licensing process.

Reports used by inspectors should be revised to ensure compliance with the Aquaculture Act *and the Aquaculture Licensing Policy and Procedures Manual.*

Inspections should be planned and completed to meet the objectives detailed in the Aquaculture Act *and the Aquaculture Licensing Policy and Procedures Manual.*

Expenditure under the Canada-Newfoundland Economic Renewal Agreement

The Canada-Newfoundland Economic Renewal Agreement (ERA) was signed on 20 June 1996. The agreement is between the federal and provincial governments and covers the period 1 April 1996 through 31 March 2001. Its purpose *"...is to increase opportunities for economic development in Newfoundland and, specifically, to enhance growth of earned incomes and employment opportunities in the province."* The primary focus of the agreement is on tourism, aquaculture and advanced technology. Funding under the ERA totals $100 million, cost-shared between the federal government ($80 million) and the provincial government ($20 million). A total of $20 million has been allocated under the ERA for development of the aquaculture industry. Under the agreement, the $20 million will be funded as follows:

- Financial and Marketing - $1 million
- Coastal Zone Aquaculture Planning - $1 million
- Communication, Advocacy and Education - $1 million
- Applied Research and Development - $9 million
- Extension Services - $8 million

Expenditures by the Department under the aquaculture portion of the ERA for the year ended 31 March 1997 totalled $1,863,801. Expenditures for the year ended 31 March 1998 totalled $5,607,530.

Our review of the Department's compliance with the ERA revealed the following:

- Section 5.5 of the ERA requires that for each project, an authorization form will be completed indicating in part, the expected number of jobs to be created/maintained and an outline of the way the project is to be carried out. Our review disclosed that project authorization forms in 1997-98 did not outline the expected number of jobs to be created or maintained and the way the project was to be carried out. With respect to how the project was to be carried out, the Department did subsequently specify this in its contracts with third parties.

- Section 6.1 of the ERA states that all tenders shall be approved by the Management Committee. The Management Committee subsequently delegated this approval requirement, through the Implementation Committee, to the Project managers. Audit testing in this area revealed instances where tender contracts were not approved by either the Management Committee, the Implementation Committee or the Project Manager.

- Section 9.1 of the ERA states that the Province *"...shall ensure that proper and accurate accounts and records are maintained...with respect to each project which it is implementing..."*. Audit testing in this area revealed that the Department did not maintain adequate project files. Project files did not contain supporting documentation regarding site visits performed by the Department, expenditures claimed by third parties which were paid by the Department and the Department's evaluation of project progress. The Department had to contact a third party to obtain documentation we requested which would have been expected to be on file. In certain cases, we had to contact the third party to obtain satisfactory documentation for the audit.

Eligible costs are defined in section 7.1 of the ERA to include *"...reasonable costs approved by Management Committee..."* and costs that are *"...invoiced to a party under contract..."* and costs that are *"...incurred and paid in the performance of a project..."* Based on this requirement, our review of the projects was designed to assess whether: costs claimed by the Department were eligible under the ERA; the nature and amount of costs claimed were authorized by the management committee; and the costs claimed were incurred and paid in accordance with a contract.

We reviewed 11 payments totalling approximately $2.4 million made by the Department during the period 1 April 1996 through 31 March 1998 in connection with projects under the ERA. The results of our tests of these payments disclosed that in many cases, there was no support from contracting parties to determine whether the expenditures identified were incurred and paid in accordance with the contract.

In order to maximize the benefits of a project approved under the ERA, project objectives and goals should be clearly stated and measurable. The activities carried out in each project require effective monitoring and reporting to ensure that each project achieves its stated objectives and goals. Our review of this area disclosed that for the projects implemented by the Department, complete, clear and measurable goals were not stated in the annual work plans for six of eight projects. As a result, effective performance measurement would be significantly hampered for these projects.

The Department does not have clear documented procedures for the monitoring and reporting of projects under the ERA. Certain monitoring and reporting procedures are stated in the "Implementation Plan for the Aquaculture Component of the ERA", the "Guidelines, Policy and Operating Procedures - Aquaculture Component - the ERA", and the standard Departmental contract for third party projects. Such criteria included: a standard Departmental contract outlining disbursements, timeframes and reports to be provided; provision of financial reports, progress reports and final reports; project funding only to be disbursed when all the required reports are received and reviewed; no project funding to be disbursed until a full review and approval of supporting documentation for claims have been made; project site visits and quarterly reports by the project manager to the coordinating committee.

The results of our review for the eight projects selected disclosed weaknesses in the monitoring processes used. In particular: project advisory committee meetings were held infrequently; required reports were not received on a timely basis and did not address all required information; and site visits were not documented.

Recommendations

The requirements of the Canada-Newfoundland Economic Renewal Agreement should be complied with.

Projects approved under the Agreement should be adequately monitored.

Department's Response

Belleoram Scallop Hatchery

The transfer of the scallop research and development program from Memorial University to Belleoram was undertaken on the basis of encouraging results achieved at the Ocean Sciences Centre prior to 1995. It was Government's intention to privatize the Belleoram operation as quickly as possible but initial results were not as promising as those anticipated. This was addressed in the Department's ongoing budget planning process and consequently a specific recommendation to Cabinet recommending privatization was not made.

Given the highly technical scientific process associated with this project the Department considers the final project cost to be most reasonable albeit it was higher than the initial estimated cost.

This project met with most encouraging results in 1998. A full report on the future of the operation will be presented to Government in 1999. The success of this facility will have a positive impact on the expansion of the scallop industry.

Accountability and Reporting

The Department undertakes a complete review of all fisheries and aquaculture programs for each fiscal year. This report is no longer required to be tabled in the House of Assembly and is available upon request. The Minister reports regularly to the House on fisheries/aquaculture activity and the Minister gives an annual overview of such activity during the annual Resource Estimates Committee process.

Aquaculture Licensing and Inspection

Referrals that are deemed necessary are reviewed and assessed prior to discussion at the Licensing Committee. Some agencies are forwarded application referrals as a courtesy, to keep them informed of developments within the industry; for example, the Newfoundland Aquaculture Industry Association and Environment Canada.

Referral agencies are requested to reply within a 30 day time frame. If no reply is received, it is understood that the agency has no concerns. There are a number of key referral agencies which issue permits or approvals for the application/site. These referrals must be received prior to a license being considered.

The typical turnaround time by the Department for routine applications is 90 days; in other coastal provinces we have been informed that it takes from eight months to three years with an average of approximately one year.

The number of aquaculture licenses has expanded significantly in the last ten years with more people directly involved, more aquaculture sites licensed, more recreational water users and more potential for conflict between them. Accordingly, the referral process results in requirements over which the Department has little control. Notwithstanding, the Department has been successful in streamlining this process in close cooperation with the many referral agencies.

Where significant delays are unavoidable the Aquaculture Licensing Administrator does verbally contact and discuss these matters with the applicant(s).

Aquaculture Inspection Reports were revised prior to the commencement of the 1998 Inspection Program which began on July 2, 1998. These new reports along with our "Inspection Strategy" had not been added to the licensing files at the time of the audit. However, they are now available for inspections.

An annual inspection program was implemented in 1997. Following the 1997 program, considerable changes were implemented in preparation for the 1998 inspection program. For example, the island portion of the Province was divided into two regions with two inspectors being responsible for the aquaculture sites, within these areas. In 1998 annual inspections were completed on approximately 90% of all aquaculture sites and follow-ups are currently being completed; these inspections were conducted in conformance with our "Inspection Strategy" which was circulated *along with new inspection forms and related information prior to the commencement of our inspections.*

Other General Comments

The revised inspection report includes a section titled Comments/Concerns, which enables the inspector to include any comments, recommendations, etc.

The Aquaculture Licensing staff carefully reviewed the 35 files which were reviewed by the AG's staff. Our review revealed that in 32 instances, pre-license inspection reports were present in the file, and in other cases, it was noted that verbal notification/approval was received from Regional Services (division responsible for pre-license inspections) or the branch aquaculture officers. The Department acknowledges that greater language clarity should be contained in the files on individual inspection process.

The inspection of the site following placement of the gear and marker buoys is a new policy for 1998. In addition, the Canadian Coast Guard, which has the primary responsibility for site marking, have an intensive inspection of aquaculture sites to ensure compliance.

All applications for a change in status from development to commercial were referred to Regional Services and approved prior to being tabled at the Aquaculture Licensing Committee. Up to 1998, two Aquaculture Development Officers sat on the Aquaculture Licensing Committee & their responeses/approvals were provided during meetings.

As was explained and noted in the AG's report, due to the remoteness of many sites and the need for the aquaculturist to accompany the inspector during the inspection, advance notice (usually no more than several days) is given. However, the Department is of the view that surprise inspections are not warranted.

An annual inspection program was first introduced during 1997; the vast majority of active aquaculture sites were inspected and follow-ups are presently being completed. By utilizing the two inspectors designated for this task and allowing time for them to conclude their other required duties, all aquaculture sites will continue to be inspected and followed-up annually; as well, a revised Inspection Strategy will be prepared and circulated, prior to the 1999 season.

Expenditure under the Canada-Newfoundland Economic Renewal Agreement

All authorization forms for the Agreement are completed in accordance with ERA Management Committee requirements. This matter will be reviewed further with staff.

Agreement officials were involved in tendering activities for all projects either directly or through membership on specially-created committees. Decisions regarding the acquisition of equipment and supplies purchased by third parties (i.e. Memorial University), where no project committees existed, were made by the third parties in accordance with standard government contract requirements.

Site visits have been ongoing for all projects but they have not always been recorded in the files. However, detailed supporting documentation for expenditures incurred by third parties was maintained for all projects with the exception of those which involved Memorial University, the Canadian Centre for Fisheries Innovation and the Marine Institute of Memorial University. Specific goals were not stated in the annual work plans for all projects as the work plans were prepared as attachments to Program Approved forms. The Program Approval form is the document which formalizes Management Committee approval of one or more projects and the work plan attached to it provides overall objectives for each project being approved. However, specific goals for a project are stated on the Project Approval form which is a document prepared for each project.

The Department monitors all projects approved under the Aquaculture Component of the Agreement and delivered by the Province through officials designated as Project Managers. These individuals maintain ongoing contact with all parties involved *with delivery of the project. Meetings of various committees have been held as required to ensure that the terms and conditions of the contracts are being complied with. In addition, quarterly reports are reviewed by the Coordinating & Management Committees and formal annual reviews are held with clients and other industry groups.*

The guidelines document referenced in the report contains procedures and reports which form the basis for administering the Aquaculture Component. These will be enhanced to reflect the Auditor General's review.

3.14 Newfoundland Farm Products Corporation

Department of Forest Resources and Agrifoods

Introduction

Newfoundland Farm Products Corporation was established in 1963 under the *Farm Products Corporation Act*. As a Provincial Crown corporation, Newfoundland Farm Products Corporation produced a full range of chicken products which were marketed throughout the Province, the Maritimes and central Canada. The Corporation operated two federally inspected abattoir complexes in the Province, one in St. John's and one in Corner Brook. In 1996-97, the last full year of operation, the Corporation processed 8.0 million chickens, 5.1 million in St. John's and 2.9 million in Corner Brook, resulting in 11.8 million kilograms of saleable product. The Corporation employed approximately 275 people and had an annual payroll of $10.2 million. Figure 1 shows operating results for the past five years.

Figure 1

Newfoundland Farm Products Corporation
Operating Results
For the years 1992-93 to 1996-97
($ Millions)

	1992-93	1993-94	1994-95	1995-96	1996-97
Sales	$22.5	$24.9	$27.3	$29.0	$15.9
Cost of Sales	21.9	24.7	29.0	29.9	19.6
Gross (loss) income	0.6	0.2	(1.7)	(0.9)	(3.7)
Operating expenses	3.3	3.3	3.7	4.0	4.2
Operating loss from discontinued hog operation	0.8	0.0	0.0	0.0	0.0
Net operating loss	**(3.5)**	**(3.1)**	**(5.4)**	**(4.9)**	**(7.9)**
Operating grant	3.8	2.9	3.8	3.7	2.6
Excess (deficiency) of operating grant over net operating loss	0.3	(0.2)	(1.6)	(1.2)	(5.3)
Deficit - beginning of year	(1.1)	(0.8)	(1.0)	(2.6)	(3.8)
Deficit, end of year	$(0.8)	$(1.0)	$(2.6)	$(3.8)	$(9.1)

Source: Newfoundland Farm Products Corporation
Audited financial statements

A new Board of Directors was appointed in November 1996 and given the mandate to pursue privatization of the Corporation. In April 1997, the Corporation closed its plant in Corner Brook and transferred processing to its plant in St. John's. In June 1997, Government announced an agreement to sell the St. John's processing operation to a consortium of local chicken producers, Integrated Poultry Limited. Government and Integrated Poultry Limited operated the Corporation under a joint management agreement until 4 October 1997 when the sale of the St. John's processing operation to Integrated Poultry Limited was concluded.

[illegible]

We conducted a review of the Newfoundland Farm Products Corporation during 1997. In April 1998 we commenced a follow-up review. The objectives of our follow-up review were to:

- review the purchase and sale agreement between Newfoundland Farm Products Corporation and Integrated Poultry Limited; and
- review payments from Government to Newfoundland Farm Products Corporation and Integrated Poultry Limited.

We completed our review of the Corporation in November 1998.

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Operating Results
For the years 1992-93 to 1996-97
($ Millions)

	1992-93	1993-94	1994-95	1995-96	1996-97
Sales	$22.5	$24.9	$27.3	$29.0	$35.9
Cost of Sales	21.9	24.7	29.0	29.9	39.6
Gross (loss) income	0.6	0.2	(1.7)	(0.9)	(3.7)
Operating expenses	3.3	3.3	3.7	4.0	4.2
Operating loss from discontinued hog operation	0.8	0.0	0.0	0.0	0.0
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Operating grant	3.8	2.9	3.8	3.7	2.6
Excess (deficiency) of operating grant over net operating loss	0.3	(0.2)	(1.6)	(1.2)	(5.3)
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Source: Newfoundland Farm Products Corporation
Audited financial statements

A new Board of Directors was appointed in November 1996 and given the mandate to pursue privatization of the Corporation. In April 1997, the Corporation closed its plant in Corner Brook and transferred processing to its plant in St. John's. In June 1997, Government announced an agreement to sell the St. John's processing operation to a consortium of local chicken producers, Integrated Poultry Limited. Government and Integrated Poultry Limited operated the Corporation under a joint management agreement until 4 October 1997 when the sale of the St. John's processing operation to Integrated Poultry Limited was concluded.

Scope and Objectives

We conducted a review of the Newfoundland Farm Products Corporation during 1997. In April 1998 we commenced a follow-up review. The objectives of our follow-up review were to:

- review the purchase and sale agreement between Newfoundland Farm Products Corporation and Integrated Poultry Limited; and
- review payments from Government to Newfoundland Farm Products Corporation and Integrated Poultry Limited.

We completed our review of the Corporation in November 1998.

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Conclusions

Purchase and sale agreement between Newfoundland Farm Products Corporation and Integrated Poultry Limited

Although the sale of the St. John's processing operation to Integrated Poultry Limited was concluded on 4 October 1997, the audited financial statements of Newfoundland Farm Products Corporation for the year ended 31 March 1998 were not available as at September 1998. As at 4 October 1997, the Crown Corporation had bank indebtedness of $10.4 million of which $10.2 million was guaranteed by the Provincial Government. As a result of not having current audited financial statements, we are unable to assess the financial position, including the bank indebtedness, of Newfoundland Farm Products Corporation.

In June 1997, Government sold the St. John's processing facility to IPL Processing Limited, a subsidiary of Integrated Poultry Limited. In addition to providing $8.5 million in grants to Integrated Poultry Limited, the Provincial Government also provided two loan guarantees of $10 million and $1 million. The Share Purchase Agreement between Newfoundland Farm Products Corporation, Integrated Poultry Limited and IPL Processing Limited requires that Integrated Poultry Limited provide the Minister of Finance with various financial information, including a copy of their audited financial statements within three months of their fiscal year end. Accordingly a copy of these audited statements should have been received by 27 September 1998. These audited financial statements would enable Government to assess the financial condition of Integrated Poultry Limited. At the time of our audit (November 1998), these audited financial statements had not been received. Various other terms and conditions related to the $10 million loan guarantee have also not been met.

An employee of the Provincial Government is currently serving as the chief operating officer of IPL Processing Limited, a subsidiary of Integrated Poultry Limited, while continuing to be on the payroll of the Government and accruing employment benefits, including pension, as a government employee. As the chief operating officer of IPL Processing Limited this person owes a fiduciary duty to IPL Processing Limited but as a senior employee of the Provincial Government he owes a fiduciary duty to the Provincial Government. Given the terms of the Share Purchase Agreement between Newfoundland Farm Products Corporation, Integrated Poultry Limited and IPL Processing Limited, which provides for many future obligations between the seller (Government) and the purchaser (Integrated Poultry Limited) this individual owes a fiduciary duty to conflicting interests.

It is therefore, in our opinion, inappropriate to have a government employee in such a dual role. In a June 9, 1998, letter from Government to IPL Processing Limited, Government states that in future this individual should "be considered an employee of IPL" and that "Government will accept no liability for actions or decisions he may take while employed by IPL"; but proposes that he will "continue to be paid by Newfoundland Farm Products Corporation in order to protect his pension entitlement and other benefits". It was further proposed that IPL would reimburse Newfoundland Farm Products Corporation for payments made to the individual but not apparently for the full cost of having him on Government's payroll. To date no reimbursement has been made; thus IPL Processing Limited is benefitting by having the services of a chief operating officer provided by the Government, either cost free, or at a delayed and reduced cost.

Government payments to Newfoundland Farm Products Corporation and Integrated Poultry Limited

During 1997-98, Government made payments totalling $16.9 million to Newfoundland Farm Products Corporation. Payments totalling $1.6 million related to the operating grants prior to the divestiture and payments totalling $1.7 million related to operations of the Corporation subsequent to the divestiture. Employee termination benefits totalled $3.8 million and $0.8 million related to production subsidies. A total of $8.5 million was paid for Integrated Poultry Limited and $0.5 million was set aside for the Corner Brook plant.

Detailed Findings

Purchase and sale agreement between Newfoundland Farm Products Corporation and Integrated Poultry Limited

In March 1997, Integrated Poultry Limited submitted a business plan to the Board of Directors of Newfoundland Farm Products Corporation. In April 1997, Newfoundland Farm Products Corporation ceased operations at the Corner Brook plant. On 17 June 1997, Newfoundland Farm Products Corporation entered into a Joint Management Agreement with Integrated Poultry Limited. This joint management agreement was subsequently extended to 4 October 1997. Also, on 17 June 1997, Newfoundland Farm Products Corporation entered into an Agreement of Purchase and Sale with IPL Processing Limited and a Share Purchase Agreement with Integrated Poultry Limited and IPL Processing Limited. These agreements provided for the sale of the St. John's processing facility to IPL Processing Limited effective 4 October 1997.

Details of the Integrated Poultry Limited Business Plan submitted to Newfoundland Farm Products Corporation in March 1997 are provided in Figure 2.

Figure 2

Newfoundland Farm Products Corporation
Capital Costs and Funding Sources
for Integrated Poultry Limited
March 1997

Details	Amount
Capital Costs	
Processor	$4,000,000
Production Facility	14,434,782
Feed Mill	3,304,348
Total Capital Costs	$21,739,130
Funding Sources	
Shareholders' Equity	$3,550,000
Provincial Government	4,000,000
Long-term Debt	14,189,130
Total Funding Sources	$21,739,130

Source: Integrated Poultry Limited
Overview of vertical integration plan

Government and Integrated Poultry Limited

The following summary highlights the results of the Purchase and Sale Agreement and the subsequent Share Purchase Agreement for both Government and Integrated Poultry Limited:

Government

- $983,819 non-interest bearing note receivable from Integrated Poultry Limited for saleable product inventory repayable in three equal monthly instalments commencing January 1999.

- $393,993 non-interest bearing note receivable from Integrated Poultry Limited for packaging and raw materials inventory repayable in three equal monthly instalments commencing March 1999.

- $658,773 non-interest bearing note receivable from Integrated Poultry Limited for losses for the period of the joint management agreement repayable in one instalment of $500,000 and the remaining balance in five equal monthly instalments commencing May 1999.

- Assumption by Integrated Poultry Limited of lease / loan liabilities of $656,585 on existing processing equipment.

- Personal guarantees of Integrated Poultry Limited shareholders (collectively totalling $1 million).

- Option to appoint representation to the Board of Directors of Integrated Poultry Limited.

- The Province has:

    - a first fixed and floating charge on the leasehold premises and the processing equipment thereon of the Corporation, or any related or subsidiary Corporation, at the Pleasantville site in St. John's;

    - a subordinate fixed charge to all other assets of the Corporation, or any related or subsidiary Corporation of the purchaser, as secured by the Bank of Nova Scotia; and

    - a second floating charge on all other assets of the Corporation, or such related or subsidiary Corporation.

Integrated Poultry Limited

- $8.5 million cash ($4.5 million operating and $4.0 million for capital infrastructure).

- $10 million Government loan guarantee.

- $1 million Government loan guarantee.

- Leasehold interest in land and buildings in St. John's.

- Machinery and equipment.

- $983,819 saleable product inventory.

- $393,993 packaging and raw materials inventory.

- $658,773 Government financing of the operating loss for the period of the joint management agreement.

Government was to provide $4.5 million operating funds and $4.0 million capital funds to Integrated Poultry Limited and a $10.0 million capital loan guarantee to the Bank of Nova Scotia. The operating funds were payable by way of an initial payment of $2.5 million and four quarterly payments of $500,000 commencing 31 December 1997. The capital funds were to be disbursed to fund capital improvements as outlined in the Integrated Poultry Limited Business Plan. At a meeting on 22 December 1997, the Board of Directors of Newfoundland Farm Products Corporation approved the release of $3.6 million of capital funds to Integrated Poultry Limited for the purchase of the feed mill. The $10 million loan guarantee was drawn down in April 1998.

Government leased Newfoundland Farm Products Corporation land and buildings in St. John's to Integrated Poultry Limited for nominal consideration of $1. Also, Newfoundland Farm Products Corporation transferred all unencumbered equipment in the St. John's plant to Integrated Poultry Limited for nominal consideration of $1.

Integrated Poultry Limited was responsible for all operating losses at Newfoundland Farm Products Corporation from 17 June 1997 to 4 October 1997. These losses amounted to $970,365. Payment was to be made by way of a $500,000 payment on 4 October 1997 with the balance in five equal monthly payments commencing 31 May 1999.

Also, Integrated Poultry Limited was to pay Newfoundland Farm Products Corporation $1.4 million for the value of inventory on hand. Payment for saleable product inventory of $1.0 million is by way of three equal monthly installments commencing 455 days after 4 October 1997. Payment for packaging and raw materials inventory of $0.4 million is by way of three equal monthly installments commencing 545 days after 4 October 1997.

The Agreement provides that Integrated Poultry Limited will be responsible for the collection of all accounts receivable for a period of 90 days subsequent to 4 October 1997. Since Newfoundland Farm Products Corporation essentially did not have any employees subsequent to 4 October 1997 and with an employee of the Provincial Government serving as the chief operating officer of both Newfoundland Farm Products Corporation and IPL Processing Limited, IPL Processing Limited continued to handle the collection of Newfoundland Farm Products Corporation accounts receivable.

Integrated Poultry Limited obtained approval for its amended capital plan which included a $2.43 million overrun. The Board of Directors of Newfoundland Farm Products Corporation recommended that the changes requested by Integrated Poultry Limited be approved. Minute of Council 98-0194 authorized the Minister of Finance and President of Treasury Board to permit the amendments requested by Integrated Poultry Limited.

Figure 3 provides details of the capital costs as specified in the original Business Plan dated March 1997, as approved in June 1997 and as revised in March 1998.

Figure 3

Newfoundland Farm Products Corporation
Integrated Poultry Limited Capital Costs

	Original March 1997	Approved June 1997	Revised March 1998
Processor	$4,000,000	$4,000,000	$5,480,000
Production Facility	14,434,782	9,900,000	10,500,000
Feed Mill	3,304,348	3,300,000	3,650,000
Total	$21,739,130	$17,200,000	$19,630,000

Source Newfoundland Farm Products Corporation Correspondence and documentation

Audited financial statements for Newfoundland Farm Products Corporation for the year ended 31 March 1998 were not available at the time of our audit. As a result of not having current audited financial statements, we are unable to assess the financial position of Newfoundland Farm Products Corporation.

On 29 October 1997, and subsequent to the Purchase and Sale Agreement and the Share Purchase Agreement, Cabinet authorized the Minister of Finance and President of Treasury Board to issue a deficiency loan guarantee to the Bank of Nova Scotia, in an amount not to exceed $1 million, to support the $6 million working capital loan of Integrated Poultry Limited, IPL Production Limited and IPL Processing Limited.

The terms of the Purchase and Sale Agreement did not include the assumption of Newfoundland Farm Products Corporation liabilities by Integrated Poultry Limited. The Newfoundland Farm Products Corporation loan guarantee was $6.5 million as at 31 March 1997. This was increased to $8.2 million in May 1997 and again increased to $10.2 million in October 1997. Government is currently reviewing the refinancing of this $10.2 million loan amount.

Integrated Poultry Limited $10 million loan guarantee

The Share Purchase Agreement specifies various terms and conditions related to the $10 million loan guarantee of the Province to Integrated Poultry Limited. Our review disclosed that a number of these terms and conditions have not been met. Specifically:

- Integrated Poultry Limited was to provide the Minister of Finance annual audited unconsolidated and consolidated financial statements within 90 days of its fiscal year end. Draft combined financial statements for the period 4 October 1997 to 27 June 1998 were provided to the Department of Finance on 1 September 1998. However, audited financial statements for this period were not available as at 30 October 1998.

- Integrated Poultry Limited was to provide the Minister of Finance monthly unconsolidated and consolidated financial statements within 30 days of month end. Subsequent to our inquiries in September 1998, monthly internal financial statements of Integrated Poultry Limited for the period October 1997 to July 1998 were provided to the Department of Finance. However, monthly financial statements were not provided for August and September 1998.

- Integrated Poultry Limited was to provide the Minister of Finance specific information monthly on the status of the outstanding loan guaranteed by the Province particularly as it relates to payments on such loans within 30 days of month end. This information was not on file at the Department of Finance.

- Integrated Poultry Limited was to provide the Minister of Finance a monthly summary of capital expenditures within 30 days of month end. This information was not on file at the Department of Finance.

- Integrated Poultry Limited was to provide the Minister of Finance during the period of capital construction, a monthly detailed summary of contract activity by major capital expenditure component, particularly as it relates to costs versus budget, within 30 days of month end. This information was not on file at the Department of Finance.

- Integrated Poultry Limited was to remit an annual loan guarantee fee, in the amount of 1% of the outstanding loan guarantee, to the Department of Finance. The first payment was to be made one year from the closing date, 5 October 1997. As of 30 October 1998, total loan guarantee fees of $110,000 had not been paid.

Chief operating officer of Newfoundland Farm Products Corporation and IPL Processing Limited

At the time of our audit, an employee of the Provincial Government was serving as chief operating officer of both Newfoundland Farm Products Corporation and IPL Processing Limited while continuing to be paid by Government as Special Advisor to the Secretary of Treasury Board. In my opinion, this individual can not represent both Government (i.e. the seller) and Integrated Poultry Limited (i.e. the purchaser) and is therefore in a conflict of interest.

Government payments to Newfoundland Farm Products Corporation and Integrated Poultry Limited

Our review disclosed that payments from Government to Newfoundland Farm Products Corporation during 1997-98 totalled $16.9 million as detailed in Figure 4.

Figure 4

Newfoundland Farm Products Corporation
Payments from Government
1997-98

Description	Amount
Operating grants	$3,384,000
Production subsidy	773,655
Termination benefits	3,787,703
Integrated Poultry Limited	8,500,000
Corner Brook plant special fund	500,000
Total	$16,945,358

Source: Province of Newfoundland
Financial management information system

The operating grant amounts were used to cover operations for the period 1 April 1997 to 16 June 1997 while Newfoundland Farm Products Corporation was operating the processing plant and for the period from 17 June 1997 to 4 October 1997 while Newfoundland Farm Products Corporation was operating under the Joint Management Agreement with Integrated Poultry Limited. Also, operating funding was provided for the period 5 October 1997 to 31 March 1998 to facilitate the wind up of Newfoundland Farm Products Corporation.

The production subsidy amount relates to the amount paid to producers. These funds flowed through Newfoundland Farm Products Corporation from Government to the producers.

Termination benefits relate to amounts paid to employees of Newfoundland Farm Products Corporation as severance pay and termination benefits. These funds were paid from the Provincial Labour Force Adjustment Fund through Newfoundland Farm Products Corporation to the affected employees.

The $8.5 million for Integrated Poultry Limited represents the $4.5 million operating and $4 million capital funding specified in the purchase and sale agreement.

The Corner Brook plant special fund relates to $500,000 that was set aside as a special fund to provide assistance for the plant in Corner Brook to be operated for a purpose other than chicken processing.

All payments from Government to Integrated Poultry Limited were paid by Newfoundland Farm Products Corporation. There were no payments made directly by Government to Integrated Poultry Limited.

Department's Response

1. *Audited financial statements for the year ended March 31, 1998 are now available for review, and a copy has been forwarded to your office.*

2. *With respect to Integrated Poultry Limited (IPL), the fact that audited financial statements may not have been available did not affect Government's ability to assess the financial position of the Company.*

   Members of the Newfoundland Farm Products Corporation (NFPC) Board of Directors, as well as representatives of the Department of Forest Resources and Agrifoods and the Department of Finance are in contact with IPL on a continuous basis. IPL provides reports on a regular basis outlining operating results, capital plans, cashflows, etc.

3. *The Provincial Government employee, who is currently serving as Chief Operating Officer of IPL was originally assigned to NFPC by the Provincial Government to assist with matters relating to the divestiture of NFPC and subsequent start up of IPL. Government considered it advisable to assign a senior official to manage the divestiture and transition process on a full time basis. The employee in question is a chartered accountant with extensive experience in the public service.*

As the divestiture and transition process drew to a close in mid-1998, IPL expressed an interest in retaining the services of this public employee. Accordingly, effective July 1, 1998, the public employee was seconded to work directly with IPL. Your office has copies of the correspondence exchanged between Government and IPL confirming that the public servant in question would be considered an employee of IPL for the period July 1, 1998 to March 31, 1999. IPL agreed to pay the salary of the employee during this period. To avoid any disruption to the employee's public service pension plan and other employee benefits, Government, as a matter of convenience to the employee, will initially pay the salary and then be reimbursed by IPL. The Department feels that this arrangement is structured in a manner which benefits Government, IPL and the employee in question, and avoids any conflict of interest. Any brief period which this employee may have served as a Chief Operating Officer for both NFPC and IPL was solely for the purpose of completing divestiture in accordance with the way the transaction was structured by legal counsels for the parties concerned.

4. *The loan guarantee fee will be paid in a manner required by the Department of Finance.*

3.15 Food Premises Inspection and Licensing

Department of Government Services and Lands

Introduction

The Government Service Centre provides the public and the business community with access to a single Government Department for their convenience when applying for various permits, licences, certificates and approvals. Some of the services offered by the Government Service Centre include commercial building plan approvals, processing of Crown land applications, day care inspections and licensing, elevator inspections and approvals, small game and angling licences and permits, liquor establishment licensing and renewals, motor vehicle registration, licences and permits, vital statistics services, and food premises licensing and inspection. There are five regional offices located in St. John's, Clarenville, Gander, Corner Brook and Goose Bay with two additional operational offices located in Bay Roberts and Grand Falls-Windsor reporting to the St. John's and Gander regional offices respectively.

Effective 1 April 1995, the Government Service Centre became responsible for implementing certain programs and services on behalf of several line departments and agencies, including food premises inspection and licensing activities on behalf of the Department of Health and Community Services. At that time, regional managers, assistant managers and inspectors were transferred from the Department to the Government Service Centre. As a result, the Government Service Centre is accountable to the Department which retained the mandate for these programs and services. The Government Service Centre also works in conjunction with the Health and Community Services Boards in implementing some of their health promotion and health protection programs.

To promote an effective and efficient working relationship among the three parties, a Memorandum of Understanding between the Department, Boards and the Government Service Centre was put in place effective 1 April 1995. The Memorandum of Understanding establishes responsibilities and accountabilities among the three parties as they relate to mandated programs and services of the Department of Health and Community Services, including food premises inspection and licensing.

The Board's strategic objective with respect to a safe food supply is that *"By the year 2000, identified public facilities will be in compliance with provincial regulations and standards."* Furthermore, the Environmental Health Services Division of the Department of Health and Community Services has a mandate to "*...identify and evaluate environmental circumstances which may be a hazard to health and to target specific interventions which may reduce or eliminate the risk.*" Part of the mandate of this Division includes the enforcement of the *Food Premises Regulations* under the *Food and Drug Act*, through the inspection and licensing of food premises. Food premises is defined as a place where food is prepared, manufactured, handled, cut, processed, packaged, displayed, stored, offered for sale, sold, or served and includes hotels, restaurants, catering vehicles, mobile preparation premises, temporary facilities, retail food stores, tents, booths, ships, cold stores, bakeries, breweries, bottling establishments, drinking establishments, dairies, creameries, pasteurizing plants, meat packing premises, and locker plants and premises.

The organization structure approved by Government for the Government Service Centre included approximately 150 positions. The total amount voted in the Province's 1997-98 Estimates relating to expenditures for Permitting and Inspection Services under the Department of Government Services and Lands was $7,909,600. Related revenue estimated for the same year was $2,452,000. The food premises inspection and licensing program does not generate any related revenue.

There are four classes of food premises as follows:

1. Food retailing - includes premises involved in the retail sale of prepackaged meats, fish, poultry, vegetables and fruit, for example, retail food stores and food stands.

2. Food preparation - includes premises involved in the preparation and/or cutting and/or sale of food products, for example, restaurants and snack bars.

3. Food production - includes premises where food is produced from an original source, for example, dairy farms and bottling of water.

4. Food manufacturing - includes premises where two or more products are combined to create a new one, for example, milk processing plants and bakeries.

Food premises inspections relating to licence renewals are typically only completed during the period from 1 November through 31 March.

Figure 1 shows the total number of food premises inspected from 1 April 1993 to 31 March 1997 and the number of licensed food establishments as at 30 November 1997. Inspections performed by the Government Service Centre began 1 April 1995. As indicated in Figure 1, information maintained by the Government Service Centre indicates that, in terms of total inspections completed, their inspection activity has been below the level achieved by the Department of Health and Community Services for the year ended 31 March 1995. The inspection activity was under by 8.7% for the year ended 31 March 1996 and by 5.6% for the year ended 31 March 1997. It is recognized that these percentages are impacted by the change in the total number of licensed food premises each year; however, as shown in Figure 1, this information was not available for the years 1993-94 through 1996-97.

Figure 1

Licensed Food Premises and Inspections
Years Ended 31 March

Year	Number of Food Premises Inspected	# of Licensed Food Premises
1997-98 to date	NOT AVAILABLE	4,701
1996-97	7,553	NOT AVAILABLE
1995-96	7,298	NOT AVAILABLE
1994-95	8,000	NOT AVAILABLE
1993-94	7,508	NOT AVAILABLE

Source: Government Service Centre

Scope and Objectives

We completed our review of food premises inspection and licensing in January 1998. Our review included an analysis of food premises inspections and licensing from 1 April 1995 to 30 November 1997, and the policies and procedures in place for the inspection and licensing of food premises. Our objectives were to determine:

- whether the *Food Premises Regulations* were being complied with;
- whether the Government Service Centre and the Department of Health and Community Services have fulfilled their responsibilities as outlined in the Memorandum of Understanding with respect to food premises inspection and licensing;
- whether the Government Service Centre has established policies and procedures which reflect the inspection and licensing process, whether these policies and procedures are consistent with the objectives of the food premises inspection and licensing program, and whether the inspection and licensing process includes procedures to satisfy the requirements of the *Food Premises Regulations* and the Memorandum of Understanding;

- whether the Government Service Centre has established performance indicators and monitoring procedures for use in evaluating its implementation of the food premises inspection and licensing program; and
- whether there is adequate and appropriate reporting of food premises inspection and licensing results to ensure discharge of accountability.

Conclusions

The *Food Premises Regulations*

The *Food and Drug Act* provides for the inspection of food premises to ensure public safety in relation to the food supply. The *Food Premises Regulations* were enacted under the *Food and Drug Act* to prescribe the manner in which food intended for human consumption should be prepared, packaged, stored, transported, sold, advertised or exposed for sale, and delivered. An integral part of the inspection process of food premises requires the inspectors to physically inspect food premises.

The Regulations state that *"A person shall not operate a food premises without a licence."* Our review disclosed that:

- some food premises were operating without a valid licence; and
- licences were issued to food premises even though the documentation required under the Regulations to assess the food premises for licensing was not on file.

The Government Service Centre could not demonstrate whether food premises are fully complying with the *Food Premises Regulations* because the Environmental Health Inspection Report used by the inspectors are not always fully completed. In addition, the Reports do not provide enough information to properly determine whether or not the inspector has ensured that the food premises has complied with all areas of the Regulations.

The Memorandum of Understanding

Effective 1 April 1995, the Government Service Centre became responsible for implementing certain programs and services of several line departments, including the Department of Health and Community Services. At that time, the Government Service Centre, Health and Community Services Boards (the Boards), and the Department entered into a Memorandum of Understanding which outlines their respective responsibilities as it relates to the inspection and licensing of food premises.

Food premises in the Province are not being inspected the required number of times each year. The Government Service Centre is required to inspect food premises a specified number of times each year to minimize health risk. We reviewed the files of 84 food premises in 1995-96 and 95 food premises in 1996-97. Many of the files reviewed indicated that the required number of inspections were not carried out. In other cases, there was no evidence of any inspection activity for the full year.

We could not determine whether the number of inspections currently prescribed for the various types of food premises is appropriate. The Department of Health and Community Services has not developed risk assessment tools and risk management techniques to rationalize how frequently food premises should be inspected.

Food premises inspections relating to licence renewals are typically not completed between March and November of each year. The Government Service Centre performs its renewal inspections in a five month period each year. Therefore, inspections are not representative of year round operations of the food premises.

The Department of Health and Community Services and the Boards are not receiving sufficient information on the inspection of food premises in the Province. The Government Service Centre is required to provide a monthly statistical summary of activities to the Boards, a quarterly statistical summary of food premise inspections to the Department, and an annual narrative report outlining achievements and activities both to the Boards and the Department. We found that monthly statistical summaries of activities are not being provided to the Boards by all regions of the Government Service Centre. In addition, the Government Service Centre has not been providing quarterly statistical summaries of activities to the Department of Health and Community Services, and has not provided the Boards or the Department with any annual reports of activity.

Temporary food facilities are not being inspected and do not have to comply with any standard health guidelines. Various regulations under the *Food and Drug Act* were repealed in 1996 with the establishment of the new *Food Premises Regulations*. The new Regulations exempt certain premises (including temporary food facilities) from its requirements provided these facilities meet *"standard health guidelines of the department"*. However, the Department of Health and Community Services does not have *"standard health guidelines"* in place to assess whether the new Regulations apply to a temporary facility or not.

Policy and Procedures

Two of the five Government Service Centre Regions do not have a database of licensed food premises, while the databases currently utilized by the remaining three Regions are not current and accurate. The Department of Health and Community Services requires the development and maintenance of an on-going up to date listing of all active food establishments to facilitate inspection by the five Regional offices of the Government Service Centre. The three databases that were maintained did not always reflect the correct name of the food premises, recorded some food premises twice, and included numerous food premises which have been closed. At our request, up to date listings were compiled following a review of the files in these regions.

Follow-up inspections to determine whether food premises have corrected previously identified health hazards are not always being performed. Inspectors are not withholding the licensing of food premises when health hazards have not been corrected.

There has been no review of Department of Health and Community Services' policies relating to the inspection and licensing of food premises since they were approved in 1994, to determine their adequacy. Since 1994, significant events, such as the passing of the new *Food Premises Regulations* directly impact the way food premises inspection and licensing activity is carried out. As a result, the policies being followed by Government Service Centre staff may not reflect current legislative requirements.

Performance Indicators and Monitoring Procedures

The Government Service Centre does not have clear established performance indicators or monitoring procedures for its inspection and licensing activity. In particular, the Government Service Centre has not specifically documented any operational goals or objectives for its food inspection and licensing program and does not have an operational plan in place to ensure that inspection and licensing activity is carried out in accordance with the legislation and the Memorandum of Understanding. The lack of clear operational objectives for scheduling and monitoring of inspection and licensing activity at the Government Service Centre has contributed to the Government Service Centre's overall failure to discharge its responsibilities to inspect and license food premises.

Findings and Recommendations

1. Compliance with *Food Premises Regulations*

The *Food and Drug Act* provides for the inspection of food premises to ensure public safety in relation to the food supply. The *Food Premises Regulations* were enacted under the *Food and Drug Act* to prescribe the manner in which food intended for human consumption shall be prepared, packaged, stored, transported, sold, advertised or exposed for sale, and delivered. An integral part of the inspection process of food premises requires the inspectors to inspect food premises and document their findings on an Environmental Health Inspection Report which was designed for this purpose.

3.15 Food Premises Inspection and Licensing

The Government Service Centre could not demonstrate whether inspectors are ensuring that food premises are fully complying with the *Food Premises Regulations* because the inspectors' reports are not always fully completed. In addition, the Reports do not provide enough information to properly determine whether or not the inspector has ensured that the food premises has complied with all areas of the Regulations. Our review of the Environmental Health Inspection Report revealed the following deficiencies:

- The report does not provide a comprehensive listing of procedures to ensure that the inspector has covered all sections of the Regulations during his/her inspection. Significant sections of the Regulations which relate to high risk areas should be specifically included on the report.
- While the Report does have an area for a narrative explanation of any violations, this does not ensure that the inspector specifies which section of the Regulations has been violated. This would be useful information to the Department of Health and Community Services in determining recurring problem areas.
- There is no place on the form for the inspector's assessment of risk for the premises. Risk assessment is critical in determining future inspection frequency.
- When the inspector signs the report, there is no indication what he/she is attesting to. A conclusion should be made by the inspector on whether or not the food premises complied with the *Food Premises Regulations*.
- There is no place on the report for review by the inspector's supervisor.

Section 5(1) of the Regulations specifically states that *"A person shall not operate a food premises without a licence."* Our review included an examination, on a random basis within each region, of documentation pertaining to the operation of 81 food premises for the 1996-97 year, and 86 food premises for the 1997-98 year to date. Our review disclosed the following:

- Nine of 81 food premises operated for a period of time in 1996-97 without a valid licence, while an additional five operated for the entire year in 1996-97 without a valid licence.
- Eleven of 86 premises operated for a period of time in 1997-98 without a valid licence, while an additional twelve continued to operate without a valid licence at the time of our review.

In all these cases, in both 1996-97 and 1997-98, licences previously issued had expired. As a result, food premises were operating without valid licences.

Section 5(2) of the Regulations specifically states that a person wishing to obtain a licence shall *"...apply in writing to the Government Service Centre; and furnish the inspector with 2 copies of the plans and specifications of the food premises...."* This information is necessary for the inspector to gain knowledge of the client's operation and to make a preliminary assessment of the food premises. Our review included an examination, on a random basis, of documentation pertaining to 14 food premises that were issued a new food premises licence between 1 April 1995 and 30 November 1997. Our review disclosed non-compliance with Section 5(2) of the *Food Premises Regulations* as follows:

- in 10 of 14 instances, there was no Government Service Centre application on file; and
- in 5 of 14 instances, there were no plans of the food premises on file.

As a result, licences were issued even though the documentation required under the Regulations to assess the food premises was not on file. In the case of plans of the food premises, Government Service Centre officials advised that while plans may not be on file, a review is conducted through other means. For example, plans may be available in files maintained for other types of services provided by the Government Service Centre.

Recommendations

Reports used by the inspectors should be revised to ensure compliance with the Food Premises Regulations.

The Government Service Centre should comply with the Food Premises Regulations.

2. Compliance with Memorandum of Understanding

Effective 1 April 1995, the Government Service Centre became responsible for implementing certain programs and services of several line departments, including the Department of Health and Community Services. At that time, the Government Service Centre, Health and Community Services Boards (the Boards) and the Department of Health and Community Services entered into a Memorandum of Understanding which outlines their respective responsibilities relating to the inspection and licensing of food premises.

Our review of responsibilities under the Memorandum of Understanding indicated the following:

(a) Department of Health and Community Services

- The Memorandum of Understanding requires the Department of Health and Community Services to develop risk assessment tools and risk management techniques to properly determine how frequently inspections of food premises should be carried out and the protocols to be followed. The Department established a Data Needs Committee to develop the framework to identify information and data necessary for risk assessment by 1997. However, the committee has not completed this task. As a result, it is not known whether the current frequencies of inspection and protocols used are appropriate.

- The Memorandum of Understanding requires the Department of Health and Community Services, in consultation with the Boards, to continue to develop guidelines and standards of accepted practice for the Government Service Centre. The guidelines and standards of accepted practice being referred to are the policies and procedures of the Department of Health and Community Services. We found that no updated guidelines or standards of accepted practice have been developed by the Department although these were to be developed by 1997. Consequently, the Government Service Centre is using the Department's policies and procedures which are incomplete and outdated in certain areas. As a result, it is not known whether the current policies and procedures are appropriate.

Recommendation

Risk assessment tools, risk management techniques and complete up to date guidelines and standards of accepted practice should be developed for the Government Service Centre in accordance with the Memorandum of Understanding.

(b) Government Service Centre

- The Memorandum of Understanding requires the Government Service Centre to implement and enforce the legislative mandate of the Department of Health and Community Services. We could not determine whether the legislative mandate as assigned to the Department, relating to *Food Premises Regulations*, was properly implemented and enforced due to the inadequate documentation of inspections at the Government Service Centre. In addition, as previously indicated, some food premises are operating without valid licences.

- The Memorandum of Understanding requires the Government Service Centre to reference the Community Health Core Programs document in its planning process for implementing the programs and services mandated by the Department of Health and Community Services. It is necessary for the Government Service Centre to reference the Community Health Core Programs document to ensure the operational goals, objectives and activities of the Government Service Centre are consistent with the broader objectives of the Boards and the Department. We found that the Government Service Centre does not prepare annual operational plans for its food premises inspection or licensing activity and does not formally reference the Community Health Core Programs document in their implementation of food premises inspection and licensing. As a result, certain activities such as conducting site specific and public education assigned to the Government Service Centre within the Core Programs document are not being carried out.

- The Memorandum of Understanding requires the Government Service Centre to inspect food premises a certain number of times each year. A specified number of inspections is necessary to minimize health risk. Our review of compliance in this area, included an examination, on a random basis within each region, of 84 food premises in 1995-96 and 95 food premises in 1996-97. Typically, food premises are not being inspected between March and November each year. The Government Service Centre performs the majority of its inspections in a five month licence renewal period each year. Therefore, inspections are not representative of year round operations of the food premises.

  Our review disclosed that the Government Service Centre has not complied with the Memorandum of Understanding in this area as follows:

  - For 1995-96, in 30 of the 84 premises tested, the required number of inspections were not carried out. In 11 of the 30 food premises found not to be have been inspected in accordance with required inspection frequency, there was no evidence of any inspection activity for the year.

  - For 1996-97, in 33 of 95 premises tested, the required number of inspections were not carried out. In 12 of the 33 food premises found not to be have been inspected in accordance with required inspection frequency, there was no evidence of any inspection activity for the year.

  Figure 2 summarizes the frequency of inspections, by class, of the 84 premises tested for 1995-96 and the 95 premises tested for 1996-97.

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Figure 2

Analysis of Non-Compliance with Memorandum of Understanding Inspection Frequency
For the Years Ended 31 March 1996 and 31 March 1997

	Total premises in sample				Premises not inspected in accordance with frequency specified in the MOU			
	Class				Class			
Region	**1**	**2**	**3&4**	**Total**	**1**	**2**	**3&4**	**Total**
St. John's	12	21	2	**35**	0	18	2	**20**
Eastern	7	4	1	**12**	0	4	1	**5**
Central	9	10	1	**20**	0	4	1	**5**
Western	12	1	1	**14**	0	0	0	**0**
Labrador	2	1	0	**3**	0	0	0	**0**
1995-96	**42**	**37**	**5**	**84**	**0**	**26**	**4**	**30**
St. John's	12	24	3	**39**	0	17	3	**20**
Eastern	9	4	1	**14**	1	3	1	**5**
Central	12	10	1	**23**	0	6	0	**6**
Western	13	1	1	**15**	0	0	1	**1**
Labrador	2	2	0	**4**	0	1	0	**1**
1996-97	**48**	**41**	**6**	**95**	**1**	**27**	**5**	**33**

- The Memorandum of Understanding requires the Government Service Centre to ensure that Environmental Health mandated programs will be implemented by professional staff with CPHI (Certificate in Public Health Inspection) designations. Professionally certified inspectors are necessary to ensure that inspections are conducted by knowledgeable, qualified people. We found that the food premises inspection program under the mandate of the Department of Health and Community Services is being implemented by professional staff with CPHI designations.

- The Memorandum of Understanding requires the Government Service Centre to provide a monthly statistical summary of activities to the Boards, a quarterly statistical summary of activities to the Department of Health and Community Services, and an annual narrative report outlining achievements and activities to both the Boards and the Department. The timely reporting of relevant and reliable information is necessary to ensure that the Government Service Centre is implementing and enforcing the programs and services for which they are responsible under the mandate of the Department of Health and Community Services.

3.15 Food Premises Inspection and Licensing

Figure 2

Analysis of Non-Compliance with Memorandum of Understanding Inspection Frequency
For the Years Ended 31 March 1996 and 31 March 1997

	Total premises in sample				Premises not inspected in accordance with frequency specified in the MOU			
	Class				Class			
Region	**1**	**2**	**3&4**	**Total**	**1**	**2**	**3&4**	**Total**
St. John's	12	21	2	35	0	18	2	20
Eastern	7	4	1	12	0	4	1	5
Central	9	10	1	20	0	4	1	5
Western	12	1	1	14	0	0	0	0
Labrador	2	1	0	3	0	0	0	0
1995-96	**42**	**37**	**5**	**84**	**0**	**26**	**4**	**30**
St. John's	12	24	3	39	0	17	3	20
Eastern	9	4	1	14	1	3	1	5
Central	12	10	1	23	0	6	0	6
Western	13	1	1	15	0	0	1	1
Labrador	2	2	0	4	0	1	0	1
1996-97	**48**	**41**	**6**	**95**	**1**	**27**	**5**	**33**

- The Memorandum of Understanding requires the Government Service Centre to ensure that Environmental Health mandated programs will be implemented by professional staff with CPHI (Certificate in Public Health Inspection) designations. Professionally certified inspectors are necessary to ensure that inspections are conducted by knowledgeable, qualified people. We found that the food premises inspection program under the mandate of the Department of Health and Community Services is being implemented by professional staff with CPHI designations.

- The Memorandum of Understanding requires the Government Service Centre to provide a monthly statistical summary of activities to the Boards, a quarterly statistical summary of activities to the Department of Health and Community Services, and an annual narrative report outlining achievements and activities to both the Boards and the Department. The timely reporting of relevant and reliable information is necessary to ensure that the Government Service Centre is implementing and enforcing the programs and services for which they are responsible under the mandate of the Department of Health and Community Services.

- We found that monthly statistical summaries of activities are not being provided to the Boards by all regions of the Government Service Centre. Some regions are reporting quarterly since they do not have an adequate system in place to report monthly. We also found that the reporting of statistical information is not consistent between Government Service Centre regions and is not always done on a timely basis. In certain instances, monthly or quarterly reports were received months after the period covered by the report date. In addition, the Government Service Centre has not been providing quarterly statistical summaries of activities to the Department of Health and Community Services, and has not provided the Boards or the Department with any annual narrative reports of activity.

- The Memorandum of Understanding requires the Government Service Centre to specifically carry out health promotion activities such as short lectures, intervention following an incident and distribution of health promotion literature as part of the inspection process. Health promotion activity is a necessary part of the inspection process as it is a specific intervention which may reduce or eliminate certain health risks. Discussion with Government Service Centre officials revealed that health promotion activity is carried out on an ad hoc basis and is generally limited to the inspector's discussion with clients about areas of non-compliance. We found that the Government Service Centre has no plan in place to formally include any of these activities into its daily inspection activity.

Recommendation

The Government Service Centre should comply with the requirements of the Memorandum of Understanding.

(c) Department of Health and Community Services and the Health and Community Services Boards

- The Memorandum of Understanding requires the Department of Health and Community Services and the Health and Community Services Boards to evaluate the Community Health Core Programs document on an ongoing basis. This is necessary to ensure that goals, objectives and activities are current. The Community Health Core Programs document was prepared to outline specific goals, objectives, strategies, activities and indicators for four major core programs of Community Health and Community Services: Promotion and Support of Health and Well Being; Promotion of a Healthy Environment; Prevention and Control of Communicable Diseases; and Provision of Health Services. This document has been revised twice since the Memorandum of Understanding became effective 1 April 1995, with the most recent revision being January 1997. We consider this area to be satisfactory.

- The Memorandum of Understanding requires the Department and the Boards to include the Government Service Centre in the development of strategic health goals and objectives as they relate to the Government Service Centre. This is necessary to ensure that the Government Service Centre, which is implementing and enforcing a number of Environmental Health programs, has input into its own operations. Discussion with Government Service Centre officials revealed that Government Service Centre input was limited to occasional attendance by its Director of Support Services at core program review committee meetings and comments by its Director of Support Services on a draft of the January 1997 Community Health Core Programs document.

- The Memorandum of Understanding requires the Department and the Boards to develop specific protocols in consultation with the Government Service Centre. Protocol is necessary to ensure consistent and adequate procedures are performed by all regions of the Government Service Centre in the implementation of Environmental Health programs under the Department of Health and Community Services. Draft protocols have been developed in each of the four Community Health Regions by Community Health coordinators and Government Service Centre management. Three of four regions have approximately five of the required ten protocols drafted, while the other region has only one draft protocol completed. The Department of Health and Community Services has not fully participated in the development of protocols as required by the Memorandum of Understanding. Consequently, maximum protocol consistency between regions may not be achieved and the maintenance of Department standards may not be reflected in the protocol development process.

Recommendation

The Department of Health and Community Services should review their responsibilities under the Memorandum of Understanding to ensure they are complying with its requirements.

(d) Department of Health and Community Services, the Health and Community Services Boards and Government Service Centre

- The Memorandum of Understanding requires that an annual evaluation of the Memorandum of Understanding itself, be performed each year by the Department of Health and Community Services, the Health and Community Services Boards and the Government Service Centre. An annual evaluation of the Memorandum of Understanding is necessary to ensure it reflects current practices and issues of the Department, the Boards and the Government Service Centre. We found that the Memorandum of Understanding has not been evaluated by either party since it became effective 1 April 1995.

Recommendation

The Memorandum of Understanding should be reviewed immediately to ensure it reflects the current practices and issues of the Department of Health and Community Services, the Health and Community Services Boards and the Government Service Centre. The Memorandum of Understanding should be reviewed annually thereafter as required by the Memorandum of Understanding.

3. Adequacy of and Compliance with Policy and Procedure

The Department of Health and Community Services has issued written policy and procedures to be followed by staff when they are inspecting and licensing food premises. These policies and procedures are intended to cover all aspects of the inspection and licensing process and provide guidance to staff in carrying out their duties. Our review of the adequacy of and compliance with the Department's Environmental Health policy and procedure manual disclosed the following:

(a) Adequacy of Policy and Procedures

- The Department of Health and Community Services, Environmental Health policy and procedure manual was assembled in 1994 in anticipation of the transfer of Environmental Health Services under the mandate of the Department of Health and Community Services, to the Government Service Centre. Our review of the policy and procedure manual revealed the following:
  - Numerous sections of the manual identified in the table of contents remain uncompleted. Of particular concern is the absence of documented guidelines defining the various classes of food premises. Guidance regarding food premises classification is

critical since food premises classification establishes the level of health risk associated with the food premise which is then used to establish the inspection frequency of food premises. We understand that guidelines for food premises classification have recently been developed by the Government Service Centre in St. John's; however, this has not been approved by the Department of Health and Community Services.

- There is no guidance for the inspector in determining the timeframe within which identified health hazards require correction. Our review revealed cases where different inspectors gave different compliance timeframes for the same violation.

- Policies related to the recording, investigating and reporting of food related complaints are not clearly established. For example, there are no policies with respect to complaint response times and there are no policies with respect to proper documentation of complaint investigation results.

- There are no policies with respect to the proper documentation of follow up inspections.

- There are no policies with respect to when a new food premises licence can be issued when there are other permits required to be in place at the food premises prior to opening. We found that at least one region of the Government Service Centre is attempting to ensure that certain other permits are in place prior to the issuance of the food premises licence.

- There are no policies regarding the planning and scheduling of routine inspection and licensing activity. Proper planning and scheduling of these activities is necessary to ensure the Government Service Centre meets its responsibilities under the Memorandum of Understanding. This would also facilitate the matching of resources available with the work that has to be completed. Management should continually monitor the frequency of inspections to ensure that they are in compliance with the inspection frequencies established in the Memorandum of Understanding. Officials of the Government Service Centre indicated that an application management system was being developed which is intended to address this area.

- Various regulations under the *Food and Drug Act* were repealed in 1996 with the establishment of the new *Food Premises Regulations.* We found that the new Regulations exempt certain premises (including temporary food facilities) from its requirements provided these facilities meet *"standard health guidelines of the department."* However, we found that the Department of Health and Community Services does not have *"standard health guidelines"* in place to assist the Government Service Centre in assessing whether the new Regulations apply to a temporary facility or not. As a result, temporary food facilities considered to be exempt by the Government Service Centre and therefore not inspected, may not be exempt and may not be meeting any form of standard health guidelines.

- Since the establishment of current policies in 1994 by the Department of Health and Community Services, there have been significant events which may directly impact upon their adequacy. In July 1996, new *Food Premises Regulations* were published under the *Food and Drug Act* and numerous regulations previously published were repealed. In January 1997, the Community Health Core Programs document was revised to reflect the current goals and objectives of the Department of Health and Community Services and the Health and Community Services Boards in certain areas, including the maintenance of a safe food supply. In that document, specific activities were assigned to the Government Service Centre to ensure stated objectives could be attained. We feel that a full review of current policies is necessary to ensure that they are consistent with the revised core programs document and the new *Food Premises Regulations*.

Recommendations

The Department of Health and Community Services should ensure that their policies are complete and current.

The Department of Health and Community Services should develop standard health guidelines that Government Service Centre inspectors can use to assess whether certain food premises are exempt from the Food Premises Regulations. *The standard health guidelines should be documented in the Department of Health and Community Services, Environmental Health policy and procedure manual.*

The Government Service Centre should continue to follow Department of Health and Community Services' policy and procedures with respect to temporary food premises until the Department develops standard health guidelines.

(b) Licensing of Food Establishments

- Section 1-100(1) of the Department's policies requires the development and maintenance of an *"...ongoing up-to-date listing of all active food establishments...."* Our review revealed that the databases currently utilized by three of five Government Service Centre regions to record licensed food premises are not current and accurate. These databases did not always reflect the correct name of the food premises, recorded some food premises twice, and included numerous food premises which were closed. The remaining two Government Service Centre regions do not have a licence database and therefore have no current information on licensed food premises. At our request, up to date listings were compiled following a review of the files in these regions.

- Section 1-100(2) of the Department's policies requires that inspectors receive on 1 November of each year, an up to date listing of licensed food establishments in their respective regions. This is necessary to ensure that inspectors have a listing of all active food premises which require licence renewal by the 31 March year end. We found that these listings are not provided to the inspectors on 1 November each year. Rather, the inspectors prepare and update their own listings of food premises.

- Section 1-100(3)(c) of the Department's policies requires that the inspector indicate on the Environmental Health Inspection Report whether or not a licence renewal sticker was affixed to the existing food premises licence at the food premises upon conducting a licensing inspection. Our review revealed that in 23 of 81 instances where an inspection was performed in the licence renewal period (1 November 1995 to 31 March 1996) for the 1996-97 year, there was no indication on the Report that a licence renewal sticker was issued.

  In 15 of 86 instances where an inspection was performed in the licence renewal period (1 November 1996 to 31 March 1997) for the 1997-98 year, there was no indication on the Report that a licence renewal sticker was issued.

Consequently, in these instances, we could not determine whether the annual food premises licence was properly renewed.

- Section 1-100(3)(d) of the Department's policies requires the inspector to document on the Environmental Health Inspection Report, areas of non-compliance with the Regulations and identify the timeframe for corrective action. Our review revealed that for 30 of 80 cases where the inspector identified a health hazard, the inspector failed to provide the client with a timeframe within which to correct the health hazard.

- Section 1-100(3)(d) also requires that the inspector withhold issuing a licence authority form for new food premises or a licence renewal sticker for existing food premises until the requirements of the regulations and standards of practice have been complied with. We found that for the 1996-97 year, in 14 of 52 cases, a food premises was licensed when there was no evidence that health hazards identified in the licensing inspection were corrected. For the 1997-98 year, in 18 of 60 cases, a food premises was licensed when there was no evidence that health hazards identified in the licensing inspection were corrected.

- Section 1-100(3)(e) of the Department's policies requires that inspectors advise the database administrator when food premises have been licensed, have changed in name, or have ceased to operate. We found that inspectors are not always doing this. As a result, Government Service Centre databases are inaccurate and unreliable.

Recommendation

The Government Service Centre should comply with Department of Health and Community Services' policy and procedures.

(c) Inspection and Documentation of Food Establishments

- Section 1-250(3) of the Department's policies requires inspectors to "*...contact the assistant regional manager in writing outlining what facilities cannot be inspected in accordance with the inspection frequency and why.*" Our review of this area was focussed on the St. John's region. Discussion with Government Service Centre management in the St. John's region revealed that this is not being done by inspectors. However, Government Service Centre management in St. John's maintain they are aware that required inspection frequencies are generally not being achieved.

- Section 1-250(4)(e) of the Department's policies requires that each inspector document their inspection on the Environmental Health Inspection Report "*...ensuring all parts of the form are completed in detail.*" Our review revealed that for 52 of 94 food premises that had an inspection performed between 1 April 1995 and 30 November 1997, there was at least one inspection report in the food premises file that was not completed in detail. In all 52 cases, the inspection checklist section of the report was not completed.

- Section 1-250(4)(g) of the Department's policies requires that the inspector have the "*...owner/operator or person in charge sign the report acknowledging receipt.*" Our review revealed that for 3 of 94 food premises that had an inspection performed between 1 April 1995 and 30 November 1997, the inspection report in the food premises file was not signed by the owner/operator or person in charge.

- Section 1-250(4)(I) of the Department's policies requires that "*If follow-up inspection is required...carry out follow-up inspection on the date indicated.*" Between 1 April 1995 and 30 November 1997, 72 of 80 inspections identified a health hazard. Our review indicated the following:

  - In 34 of the 72 cases where the inspector identified a health hazard, there has been no inspection since the health hazard was identified. As a result, we could not determine whether the health hazard was ever corrected.

  - Of the remaining 38 cases, there has been a routine inspection since the initial health hazard was identified. These routine inspections have identified that the health hazard was still present for 23 of the 38 cases.

Recommendation

The Government Service Centre should comply with Department of Health and Community Services' policy and procedures.

(d) Investigation of Complaints

- The Government Service Centre maintains a complaints log to record all food premises complaints received. These complaints are required to be investigated and recorded on a complaint report indicating the nature of the complaint and the action taken. Our review of this process indicated the following:

  - Section 8-10(1) of the Department's policies requires all complaints to be *"...documented on receipt."* There were complaint forms on file for 14 of 17 complaints logged. For the remaining 3 complaints, we could not determine if the complaints were ever investigated.

  - Section 8-10(3) of the Department's policies requires all complaints to be *"...investigated promptly."* While the Department of Health and Community Services' policy and procedure does not define "promptly", we were informed that 48 hours is the standard used by inspectors for this purpose. With the exception of one complaint which was not investigated until 15 days had elapsed, the other complaints were investigated within two to three days.

    Section 8-10(3) also requires that upon investigating complaints, *"...a course of action to eliminate, improve or correct them will be determined and acted upon where appropriate."* Our review revealed that for 9 of 14 complaints investigated, we could not determine whether the action taken to correct the complaint was sufficient, due to inadequate documentation of the complaint investigation. For 2 of 14 complaints investigated, action taken to correct the complaint was not followed up to ensure correction.

  - Section 8-10(4) of the Department's policies requires that the originator of the complaint *"...be advised in writing within 21 days after receipt advising of findings and action taken."* Our review revealed that for 13 of 14 complaints investigated, there was no evidence of the plaintiff ever being advised of the outcome of the complaint investigation. In the case where the plaintiff was contacted, it was after 21 days had elapsed.

Recommendation

The Government Service Centre should comply with Department of Health and Community Services' policy and procedures.

4. Performance Indicators and Monitoring Procedures

Clearly stated operational goals and objectives are necessary to ensure the proper establishment of performance indicators and monitoring procedures. We found that the Government Service Centre has not established any specific operational goals or objectives for the food premises inspection and licensing program. Current goals and objectives set for the Government Services Branch as a result of Government's program review initiative are very broad and do not relate specifically to food premises inspection and licensing.

We found that the Government Service Centre does not have an operational plan in place to ensure that inspection and licensing activity is carried out in accordance with the legislation and other requirements as specified in the Memorandum of Understanding and the Community Health Core Programs document. We found Government Service Centre management to be notably absent in the planning and scheduling of inspection and licensing activity since this responsibility rests mainly with each individual inspector with respect to the food premises he or she is responsible for. Management in the St. John's region did prepare an inspection schedule for each inspector for the 1996-97 year, however, no similar scheduling occurred for the 1997-98 year. Discussion with Government Service Centre management in St. John's revealed that the scheduling was abandoned in 1997-98 because inspectors did not follow the schedule in 1996-97.

Recommendations

The Government Service Centre should establish clear operational goals and objectives with respect to its food inspection and licensing program. Established goals and objectives should reflect the broader strategic objectives of the Department of Health and Community Services and Health and Community Services Boards.

The Government Service Centre should properly plan and schedule its inspection and licensing activity to ensure its operational goals and objectives are achieved. The Government Service Centre should ensure management participates in the planning and scheduling of inspection and licensing activity.

Departments' Response

Department of Government Services and Lands

We agree the report forms need to be revised. This will be done in conjunction with implementation of the Application Management System.

We agree manual checks and controls in the system, as they presently exist, are sometimes overlooked. The Application Management System will assist to prevent this from happening and, as well, identify it to the appropriate authority when it does occur.

Department of Health and Community Services

We agree with this recommendation. The Department of Health and Community Services is a partner in the federal/provincial/territorial Canadian Food Inspection System Implementation Group (CFISIG), which has a mandate to develop national regulatory templates and code/interpretive guidelines. Currently, we have received government's approval to harmonize our regulations and standards with the National Dairy Code regulatory template and interpretive guidelines. The National Dairy Code is the first in a series of products ratified by CFISIG. These codes are intended to be outcome or risk based, responsive to both industry and consumer interest, and reflect the goal to harmonize food safety standards across Canada.

In order to be consistent with our involvement with CFISIG and not to reinvent standards development at the provincial level, the Department of Health and Community Services has asked the Government Service Centre to continue to use existing policy documents, that pre-date the Food Premises Regulations, for guidance awaiting the development and adoption of national codes. Much of the information contained in these policy documents is still relevant despite the date of issue.

Additionally, the process of a fully developing risk management strategy (ie: techniques) is dependent on data or information generated by the Government Service Centre. The Application Management System will provide the Department of Health and Community Services with appropriate data to aid in the validation of risk assessment tools and in the development of risk management strategies.

Department of Government Services and Lands

We agree, but note in some cases this requires that other signatories to the MOU complete their commitments. For instance, it is generally accepted that the current method of inspection which is strictly based on frequencies dependent on class of food premise is not an efficient means by which to carry out inspections. Government has decided to proceed to a risk based approach. To date the Department of Health and Community Services has not finalized these guidelines.

Along with implementation of the Application Management System, documentation of inspections will improve and annual operational plans will be put in place. Most inspections will continue to be carried out in the period November to March as this is dependent on the resources available and to do otherwise would require either additional staff or overtime. We note, as well, that for the period April to September 1998 our records indicate that 1,889 scheduled inspections of food premises (class 1-4) have occurred.

Reporting now (since April 1998) can be done monthly. With review of the MOU, the requirement for reporting may change.

With respect to the promotion activities, we do it on a required basis, as did Health, and as they require us to do so. This is not so much "ad hoc" as it is performed based on the professional judgement of the inspector as circumstances arise or at a request.

Department of Health and Community Services

Beginning in the fall of 1997, a review committee was formed to evaluate the existing Memorandum of Agreement and to make necessary revisions, including program and structural changes reflected as a result of the formation of the Department of Health and Community Services and Health and Community Services Boards, and to incorporate accountability statements for inspection and monitoring of personal care homes. The Department of Health and Community Services was officially proclaimed on April 1, 1998. This new Department was formed from an amalgamation of the former Department of Health and the divisions of Child Welfare and Community Corrections and Family and Rehabilitative Services from the Department of Human Resources and Employment.

A first draft of a new Memorandum of Agreement was sent out to regional staff for consultation during the summer of 1998. Comments received have been incorporated into a second (final) draft which will be sent out to parties to the agreement in December for final ratification prior to signature.

We agree that protocols identified in the existing Memorandum of Agreement have not been ratified. Several of the original protocols are no longer necessary, due to a variety of reasons, including structural changes that have occurred since 1995. For example, WILIA no longer exists as an entity and thus a protocol is not necessary. With respect to other protocols, such as for communicable disease, we intend to ratify regional drafts simultaneous with the adoption of a new Memorandum of Agreement.

Department of Health and Community Services

The Memorandum of Understanding is currently under review and will be revised. At this stage in drafting, an amending process is being recommended which would formalize a mechanism for ongoing evaluation, review and amendment.

Department of Government Services and Lands

It is being reviewed at present. The requirement for annual review may change arising from this review process.

3.15 Food Premises Inspection and Licensing

Department of Health and Community Services

We agree with the recommendations. The work at the national level through CFISIG is related to the development of standards, guidelines and regulatory change at the provincial level. To ensure that work is not duplicated, the Department of Health and Community Services is using the national agenda to fulfill its commitment for local development of policies and overall risk management strategies (ie: risk assessment tools, risk management techniques).

Existing policy documentation developed prior to the adoption of the Food Premises Regulations is consistent with the intent of the new legislation. Further, these policy documents were also designed in anticipation of regulatory change and not simply arose as a result of the transfer of operations to the Government Service Centre, therefore, they are still relevant and cover many of the gaps identified, including the policy for temporary facilities.

The Department of Health and Community Services provides advice (written and oral) to the Government Service Centre on a regular basis to respond to identified gaps in policy on at least an interim basis. These recordings, along with documentation from the CFISIG initiative have and will continue to be formulated into new legislative, policy and standards documents.

Department of Government Services and Lands

The frequency of inspections is a matter to be reviewed in the context of moving to risk based inspections.

In cases where regulations have been replaced and certain premises (including temporary food facilities) are exempted from the requirements, we have sought direction from health in individual cases and on occasion have been advises that, as they are exempt, not to inspect them. Large events, however, such as the Regatta, St. John's, where there are a multitude of these temporary premises, continue to be inspected. In cases where temporary premises exist for a short time and are selling only pre-packaged goods, the risk is so low inspecting them for the sake of inspection may be a waste of resources. At present, we use discretion combined with advice of the Department of Health and Community Services to determine what temporary premises are inspected.

Department of Government Services and Lands

The databases the Government Service Centre started with were turned over to Information Technology by the Department of Health and contained inaccuracies we are attempting to correct. The database structure precluded easy realignment of regional boundaries. The Application Management System will overcome above problems.

The maintenance of accurate records is a combined effort of the license holders, clerical and field staff. We concur that improved reporting by inspectors will be required.

The matter of classifying risk has been put to a committee of the Government Service Centre and Community Health Boards by Health, but to date the committee have not come up with results. It is difficult for an inspector to describe risk in qualitative terms without guidelines as how to classify risk.

The issuance of licences without inspection will be preluded by business rules within the Application Management System.

Department of Government Services and Lands

While we recognize that isolated cases and circumstances exist from time to time, the Government Service Centre is generally in compliance with the policies and procedures of the Department of Health and Community Services. However, we agree that greater effort on behalf of Management is required to monitor inspector's field activities and these activities will be enhanced with the implementation of the Application Management System.

Department of Government Services and Lands

While we recognize that isolated cases and circumstances exist from time to time, the Government Service Centre is generally in compliance with the policy and procedures of the Department of Health and Community Services. The Application Management System will address points made by the Auditor General in this respect.

Department of Government Services and Lands

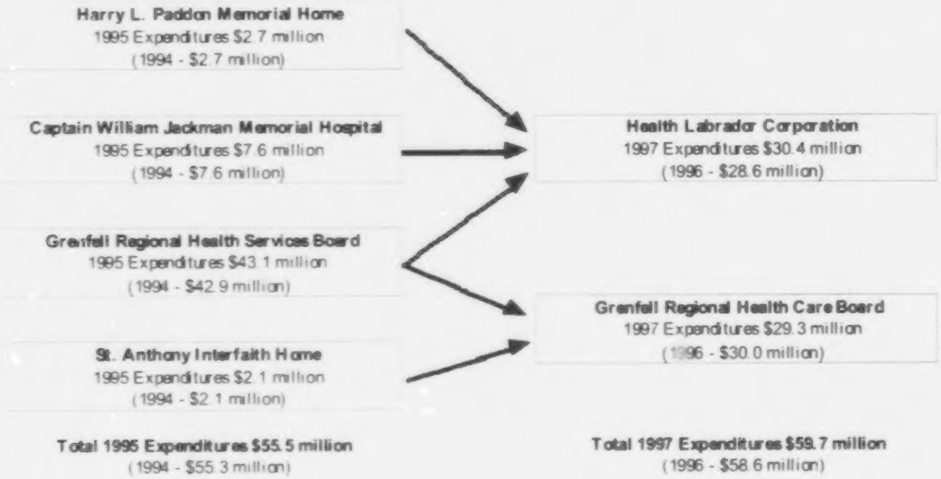
While we have recognized that there is an opportunity in this area, it should be noted that, to a certain degree, these activities are being conducted informally. We realize that they need to be formalized and we are in the process of formalizing these activities. These activities will be enhanced through the implementation of the Application Management System.

3.16 Health Labrador Corporation

The Health Labrador Corporation was established in November 1994 as a result of the restructuring of health boards in the Province. This restructuring resulted in the creation of two new boards to take over the services previously provided by four boards in northern Newfoundland and Labrador as illustrated in Figure 1.

Figure 1

Department of Health and Community Services
Labrador Boards Restructuring
31 March


Harry L. Paddon Memorial Home
1995 Expenditures $2.7 million
(1994 - $2.7 million)
Captain William Jackman Memorial Hospital
1995 Expenditures $7.6 million
(1994 - $7.6 million)
Grenfell Regional Health Services Board
1995 Expenditures $43.1 million
(1994 - $42.9 million)
St. Anthony Interfaith Home
1995 Expenditures $2.1 million
(1994 - $2.1 million)
Total 1995 Expenditures $55.5 million
(1994 - $55.3 million)
Health Labrador Corporation
1997 Expenditures $30.4 million
(1996 - $28.6 million)
Grenfell Regional Health Care Board
1997 Expenditures $29.3 million
(1996 - $30.0 million)
Total 1997 Expenditures $59.7 million
(1996 - $58.6 million)

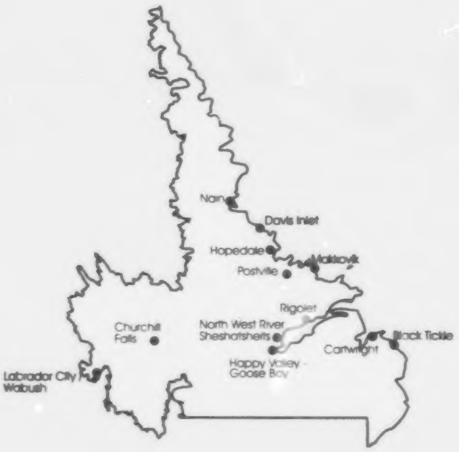
Source: Audited Financial Statements

Although the Corporation was established in November 1994, it did not commence its first fiscal year until 1 April 1995. At that time the Board assumed management and operation of health care services in Happy Valley-Goose Bay, Churchill Falls and coastal Labrador north of Black Tickle, all of which were previously operated by the Grenfell Regional Health Services Board. The Board also assumed management and operation of the Harry L. Paddon Memorial Home in Happy Valley-Goose Bay and the Captain William Jackman Memorial Hospital in Labrador City.

The Corporation was established under the *Hospitals Act* and is governed by a 13-member board of directors appointed by the Lieutenant-Governor in Council, representing various communities and groups in Labrador. The Board is responsible for all provincially funded health services and programs, including acute care, community health, public health, long-term and continuing care, dental health, addictions and mental health. Figure 2 shows the vast geographical area covered by the Board.

Figure 2

Health Labrador Corporation
Operational Sites
31 March 1997


Nain
Davis Inlet
Hopedale
Makkovik
Postville
Rigolet
Churchill
Falls
North West River
Sheshatsheits
Black Tickle
Cartwright
Happy Valley -
Goose Bay
Labrador City
Wabush

Community	Population	Beds	Facilities
Labrador City / Wabush	10,500	20	Captain William Jackman Memorial Hospital
Churchill Falls	810		Clinic
Happy Valley - Goose Bay	8,500	32	Melville Hospital
North West River	550		Nursing Station
Sheshatsheits	1,100		Clinic
Cartwright	611	3	Nursing Station
Black Tickle	636		Nursing Station
Rigolet	334		Nursing Station
Postville	231		Nursing Station
Makkovik	370	4	Nursing Station
Hopedale	515	3	Nursing Station
Davis Inlet	465		Nursing Station
Nain	1,069	9	Nursing Station
	25,691	71	
Long-term Care			
Happy Valley - Goose Bay		47	Harry L. Paddon Memorial Home
Total	25,691	118	

Scope and Objectives

We completed our review of the Corporation in May 1998. This review covered the period 1 January 1996 to 31 January 1998. The objectives of the review were to assess:

- whether the management information systems were adequate in monitoring and controlling the financial position of the Board and in providing information to management and the Board;
- whether the Board complied with the *Hospitals Act* and other related legislation;
- whether purchases were adequately monitored, controlled and in compliance with statutory requirements;
- whether capital assets and inventories were adequately monitored and controlled; and
- whether the human resource function was adequate for planning and control of human resources.

Conclusions

Financial Management of the Corporation

The Corporation has significant financial problems as indicated by the following:

- The Corporation has incurred operating deficits totalling $3.1 million for the years ended 31 March 1996 and 1997 and is anticipating a deficit for the year ended 31 March 1998.
- As of 31 March 1997, the Corporation no longer had cash for operating purposes and had borrowed $563,000 from the Board's other funds which totalled $2.6 million at that time. As at 31 March 1998, the Corporation had an overall cash deficiency of $76,000.
- The Corporation's financial system does not produce complete and accurate financial information. The system was modified in 1995 at a cost of $50,000, yet numerous problems have caused a significant amount of downtime and the production of unreliable financial data. Although the Board has been in operation for two years, it has still not consolidated its financial operations into one financial information system. As a result, the Board does not know the financial position of the Corporation on a current basis.
- The annual audit for 31 March 1996 was not completed until February 1997 and the audit for 31 March 1997 was not completed until June 1998. There are no standard reporting procedures and reports for the Board have been manually prepared. As a result of this manual intervention, the chance of error in these interim financial reports is increased. The only accurate reports are the year end audited financial statements which are not being completed on a timely basis.
- The budgeting process is not adequate. With no detailed budgets for 11 of the Board's 18 sites, monitoring of the Corporation's financial position has been difficult to do with any degree of accuracy. Eleven of the 18 sites exceeded their budgets yet there were no explanations for the variances.
- Senior officials of the Corporation received compensation in excess of that provided by Government policy. In addition, our review indicated that the travel costs of one senior employee for the period 1 January 1996 to 31 January 1998 totalled $144,000. Our review of a sample of these travel expenditures identified three separate travel claims of $1,300, $1,100 and $1,000 which were submitted to both the Health Labrador Corporation and a second Health Care Board. As a result this employee was reimbursed twice for each of these claims. Cabinet has been advised of these unusual transactions.
- The Corporation spent approximately $290,000 on accounting and auditing fees from 1 January 1996 to 28 February 1998. Of this amount, $256,000 was spent on accounting and other professional services which should have been provided by Corporation staff while the remaining $34,000 was for the annual audits.
- The Corporation has not submitted its financial statements and budget in accordance with the *Hospitals Act*. The financial statements for 31 March 1996 were not finalized until 7 February 1997, four months after the required date of 30 September and ten months after the year end. The financial statements for 31 March 1997 were completed in June 1998, 15 months after the year end.
- The Board has not established compensation standards in line with those of Government departments.

Purchasing

The Corporation has not complied with the *Public Tender Act*. Fourteen of 25 purchases that we reviewed were not made in compliance with the *Public Tender Act*. Ten of these 14 purchases were not tendered, one purchase was made for an item that did not meet tender specifications, one tender was for insurance services that was received two days after closing, another tender call stated a specific model number which contravenes Government policy, and in one instance we could not determine if the lowest bidder was accepted because of a lack of documentation.

There is insufficient information on the cost of air ambulance services. Although this service cost $1.6 million in 1995-96 and $1.8 million in 1996-97, there is no analysis of the number of patients receiving services and usage trends. This is significant since the cost of providing these services exceeded the revenue received from Government grants and patient fees.

While the Corporation called proposals for the provision of support services to reduce costs, we could not determine how the successful bidders were determined. In addition, we could not determine how the Corporation will measure savings identified by the successful bidders given the lack of accurate financial information. Our review disclosed that the cost of providing these services increased from $4.3 million in 1995-96 to $4.4 million in 1996-97.

Capital Assets and Inventories

Controls over capital assets are not adequate. There is no centralized listing of capital assets and not all assets are physically identified. The Corporation is attempting to improve controls in this area and has engaged a consultant to tag and list the assets at the Melville Hospital. The Captain William Jackman Memorial Hospital has a listing of its assets and the Harry L. Paddon Home is in the process of preparing such a list. None of these lists have dollar amounts assigned to the asset and therefore cannot be reconciled to the Corporation's accounting records.

Established controls over inventories are not being utilized. A significant number of variances between annual counts of medical supplies and pharmacy inventories indicate that control cards are not being updated as inventory items are used.

Human Resources

Job competitions and employee leave were not always properly documented. Job appraisals were not being conducted in accordance with Board policy.

Findings and Recommendations

Financial Management of the Corporation

1. Financial Position

In each of its first two fiscal years the Corporation incurred operating losses and further losses are expected for the current year ending 31 March 1998. Draft financial statements for the year ended 31 March 1998 were not available at the time of our audit in June 1998 and, as a result, our work focused on the 1996 and 1997 financial statements. Figure 3 shows the operating results for the first two years of operation, 1996 and 1997.

Figure 3

Health Labrador Corporation
Operating Results
31 March
($ 000's)

	1996		1997	
Revenue	**Budget**	**Actual**	**Budget**	**Actual**
Provincial Plan	1996 Budget Not Available	$21,276	1997 Budget Not Available	$21,910
Fees and recoveries		2,832		3,292
MCP salaries physicians		1,910		2,007
Air ambulance grant		1,285		1,285
		27,303		28,494
Expenditures				
Administration and support		11,992		12,613
Nursing		5,216		4,871
Ambulatory care		5,688		6,564
Diagnostic and thereapeutic		2,463		2,650
Medical		1,908		2,272
Other		236		542
		27,503		29,512
Operating expenditure over revenue		(200)		(1,018)
Vacation and severance pay accrual		(373)		(80)
Amortization		(677)		(770)
Expenditure over revenue		$(1,250)		$(1,868)

Source: 1997 Audited Financial Statements

The operating losses totalling $3.1 million in 1996 and 1997 have resulted in a significant deterioration of the Corporation's financial position. The Board is also anticipating a deficit for the 1998 year. In addition, comparison of the 1996 and 1997 operating results showed significant variances; however, we could not determine the reasons for the variances from the Corporation's financial records.

Although, as indicated in Figure 4, the Corporation had cash on hand as at 31 March 1997, it has to fund the deficits incurred in previous years. This problem will be further compounded in 1998 if the deficit, presently anticipated by the Board, for that year, actually materializes. As a result, the Board has to formulate a plan to eliminate their deficits either through increased revenues or reduced expenditures. As at 31 March 1997, Board funds are available to help fund any operating deficits. Unaudited information provided to us by the Corporation indicates that its net cash position as at 31 March 1998, including Board and Special Purpose Funds, was a deficiency of $76,000. Figure 4 indicates the deteriorating cash position of the Corporation.

Figure 4

Health Labrador Corporation
Cash Position
31 March
($ 000's)

Description	1996	1997	1998
Revenue Fund	$ 496	$ (563)	
Board Fund	794	907	
Special Purpose Funds	1,162	1,701	
	2,452	2,045	
Accounts Receivable - Special Purpose Funds	(310)	-	
Total Cash	$ 2,142	$ 2,045	$ (76)

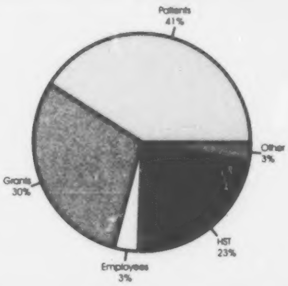
Source: Health Labrador Corporation's Financial Statements and Financial Records

2. Amounts owed to the Corporation

The Corporation was owed $1.6 million as at 31 March 1997. Figure 5 provides details of these receivables.

Figure 5

Health Labrador Corporation
Amounts owed to the Corporation
31 March 1997

Description	Amount	Graph
Patients	$ 679,613	
Grants from Provincial Government	494,111	
HST	377,186	
Employees	57,226	
Other	47,257	
Gross Receivables	1,655,393	
Allowance for doubtful accounts	79,989	
Net receivables	$ 1,575,404	

Source: Health Labrador Corporation's Financial Records

- A review of all nine inpatient billings for January 1998 disclosed that patients are not always billed on a timely basis. Four of the nine billings were for patients discharged prior to 1 September 1997 while the remaining five billings were for patients discharged between 1 September and 31 December 1997. The Corporation's records indicate that approximately 50% of the patient receivables are greater than 30 days old.

- The grants receivable of $494,111 represent various capital and operating grants due from the Province and were received by the Corporation in 1997-98.

- The HST receivable of $377,186 results from the financial information system not being able to provide timely information to the Corporation to allow it to complete its claims on a timely basis. The claim was filed in December 1997 and covered a period from 1 April 1995 to 31 March 1997.

- A review of employee accounts receivable of $57,226 disclosed that $44,015 was owed for payroll advances of $65,120 made to 95 staff of the Captain William Jackman Memorial Hospital. These advances were made in May 1994 when the payroll functions were transferred to an outside service when employees were paid at the end of the pay period rather than the beginning of the pay period. These amounts are to be recovered on termination of employees. The balance of employee receivables were made up of vacation advances and payroll deductions for employees on leave of absence.

- Other receivables of $47,257 include payments for locums, travel, bursary, laundry sales and other miscellaneous sales.

3. Information Systems

The current computer system in place for the Board's administrative office at the Melville Hospital in Goose Bay was originally used at the Harry L. Paddon Memorial Home in Goose Bay and was modified in 1995 at a cost of $12,000 with the intent of meeting the accounting requirements of the Board. This was in addition to maintenance fees, training costs and consulting fees totalling $38,000. However, the system has not worked very well and numerous problems have occurred such as posting errors, report printing errors, accounts zeroed out resulting in a loss of data and employees deleted from the payroll database. These difficulties have caused a significant amount of computer downtime and have resulted in unreliable financial data.

The Corporation is also operating a second accounting system out of the Captain William Jackman Memorial Hospital in Labrador City. This second system is still in use because it is operating well and there are concerns that adding this operation to the Melville Hospital computer system would only compound the problems already present. As a result, the Board's current information systems do not provide for complete financial reporting on a timely basis.

Since the current financial information system does not provide timely and accurate information, this has resulted in significant delays in meeting annual reporting requirements. For example, the annual audit for 31 March 1996 was not completed until 7 February 1997, and for 31 March 1997 the audit was not finalized until June 1998. In late 1997 the Board engaged private sector auditors to bring the accounting records up to date. At the time, the general ledger had not been updated since March 1997. In addition, the Corporation had not submitted the required annual returns to the Department of Health and Community Services for 31 March 1996 and 31 March 1997.

Periodic reporting to the Board has also been deficient. Due to the inefficiencies of the current system, manual reports were prepared for the Board. This has resulted in inaccurate information being presented to the Board as was evidenced when the expenses for one payroll were excluded from financial reports.

The Corporation has reviewed its information needs and called proposals for a new information system. This process, however, has been put on hold by the Department of Health and Community Services pending investigations of alternative methods of providing accounting services.

In addition to the system deficiencies identified, we also note that there are no policies and procedures manuals or technical manuals to provide direction to staff.

4. Budgeting

An integral part of financial control is the need for a well-documented budget and timely, accurate financial information. Our review of the budgeting process at the Corporation indicated that it was inadequate. Although a budget was prepared by site, there was no breakdown of expenditures by department or expenditure account at 11 of the 18 sites. Expenditures from the 18 sites exceeded budget by $1.6 million, yet there was no explanation for these variances and no detailed variance analysis by revenue or expenditure category. Figure 6 shows the Corporation's actual and budgeted expenditures by site only for the year ended 31 March 1997.

Figure 6

Health Labrador Corporation
Budget Analysis
31 March 1997

Site	Budget	Actual	Variance	Percentage
Board Administration	$ 2,320,352	$ 2,134,415	$ 185,937	8%
Melville Hospital	9,182,431	10,254,695	(1,072,264)	(12)%
Captain William Jackman Memorial Hospital	6,747,320	6,906,203	(158,883)	(2)%
Harry L. Paddon Memorial Home	2,734,891	2,796,376	(61,485)	(2)%
Churchill Falls Clinic	466,404	570,866	(104,462)	(22)%
Cartwright Clinic	360,732	402,015	(41,283)	(11)%
Hopedale Clinic	400,152	490,800	(90,648)	(23)%
Makkovik Clinic	316,272	328,368	(12,096)	(4)%
Nain Clinic	1,040,196	965,900	74,296	7%
Black Tickle Clinic	306,900	351,258	(44,358)	(14)%
Davis Inlet Clinic	515,244	515,594	(350)	0%
Postville Clinic	251,256	228,127	23,129	9%
Rigolet Clinic	323,832	314,996	8,836	3%
North West River Clinic	433,500	509,807	(76,307)	(18)%
Dental Services	909,996	898,568	11,428	1%
Community Health Administration	562,716	767,451	(204,735)	(36)%
Labrador West - Public Health and Addiction Services	293,832	273,133	20,699	7%
Labrador East - Public Health and Addiction Services	600,492	660,766	(60,274)	(10)%
Total	$ 27,766,518	$ 29,369,338	$ (1,602,820)	(6)%

Source: Health Labrador Corporation's Financial Position Report April 1996 to March 1997

At the time of our review in February 1998, the Assistant Executive Director of Corporate Services, while working at home, was allocating the site budget for the Melville Hospital for 31 March 1997 to individual revenue and expenditure categories in order to explain variances for the year end audit. We question the usefulness of preparing a budget 11 months after the end of the fiscal year.

5. Significant Expenditures

Our examination included an analytical review of all expenditure accounts to identify significant expenditures. This review disclosed the following:

- One employee incurred expenditures of approximately $160,000 from 1 January 1996 to 31 January 1998. This included $16,103 in family travel as per the employee's employment contract, $15,600 for car allowance, $16,565 related to the sale of a home including $8,000 in compensation for loss on sale of the home and $112,462 for 246 days of business travel over a two year period. As indicated in Figure 7 later in this report , several of these expenses are not permitted under Government policy.

- One travel claim for $1,300 was reimbursed by this Board and another health care board. This reimbursement used the travel agents invoice to support one claim for airfare and the ticket to support the other. Duplicate rental agreements, gas receipts and hotel bills were also used. Other travel of approximately $1,100 and $1,000 were reimbursed by the Board and a second board, again using duplicate receipts for airfare, hotel accommodations, gas and car rental agreement. This matter has been forwarded to Cabinet for review and I understand that this matter has been forwarded to the Department of Justice for assessment.

- Questionable expenditures are also being claimed such as movies in hotels, transportation of a private vehicle from Goose Bay to Lewisporte, direct payment in lieu of personal travel, and non-business stopovers while travelling to a particular destination.

- A general review of travel claims identified weakness in the documentation of the arrival and departure times, harmonized sales tax paid and the reason for the trip. In addition, on two instances, claims were made for reimbursement of airfare based on the travel agent's invoices rather than the actual ticket copy.

- Travel claims are being approved by employees reporting to the person who travelled. Employees approving travel claims should be in a position to challenge the claim.

- Another employee received payment of $5,000 for moving expenses related to the sale of a home. This employee received an advance of $2,500 in May 1996 based on the approval of a senior executive while the second $2,500 was paid in July 1996. These amounts were paid by the Corporation without any supporting documentation.

- The Corporation spent approximately $290,000 on accounting and auditing fees from 1 January 1996 to 28 February 1998. Of this amount, $256,000 was spent on accounting and other services that should have been performed by Corporation staff while the remaining $34,000 was for the annual audits. Although proposals were requested for the annual audit, no proposals were requested for the accounting and other services.

- The Corporation purchased $12,120 for gifts to be distributed to employees for reaching set years of service with the Corporation. These gifts include such items as rings and watches and are not permitted under Government policy.

- In November 1997 the Assistant Executive Director of Corporate Services resigned with effect from 18 February 1998. The Board accepted the resignation effective 27 February 1998; however, the employee was not required to report for work after 31 December 1997. The payroll cost for this employee from 1 January 1998 to 28 February 1998 was approximately $12,000.

Recommendation

The Board should monitor its financial position closely. This should include the establishment of an appropriate information system, preparation of a budget in sufficient detail to monitor operations in each of the 18 sites and the periodic review of significant expenditures.

Compliance Issues

1. Hospitals Act

The Health Labrador Corporation was established pursuant to sections 4 and 5 of the *Hospitals Act* and is therefore subject to the requirements of this legislation. Our review for compliance with the *Hospitals Act* disclosed the following:

- Section 18 of the Act requires that the Corporation present an annual report to the Minister of Health on the work of the Board in the immediate preceding year. This report is to be submitted within six months of the year end being reported on and is to include a statement of income and expenditure and a statement of assets and liabilities. These statements are to be certified by an auditor. The financial statements for the year ended 31 March 1996 were not submitted until 10 months after the year end and the financial statements for the year ended 31 March 1997 were not submitted until 15 months after the year end.

- Section 28 of the Act requires that the Corporation adopt and submit a budget to the Minister for each hospital detailing the estimated revenues and expenditures. The Corporation's budget did not detail its revenues and expenditures, but only showed the revenues and expenditures by each site.

- The Board's by-laws are not consistent with the *Hospitals Act* as required by section 33 of the Act in the following areas.
    - Section 15(1) of the Act established the quorum for a board meeting at one-half of the members and where this is not a whole number, the whole number next below, where as Article VII of the Board's by-laws requires a clear majority of members to constitute a quorum.
    - Section 15(4) of the Act gives the person presiding at a meeting a vote on all decisions plus a second or casting vote when there is an equality of votes, where as Article VII of the Board's by-laws gives the Chairperson a vote only if there is a tie.

2. Government Policy

Government policy does not permit the provision of monetary and non-monetary benefits to management staff. In addition, Minute of Council 94-0520, dated 2 June 1994, directed Treasury Board to advise all boards "*. . . that compliance in all respects with compensation standards which have been established for Government departments is mandatory.*" Our review disclosed that the terms of employment for a senior employee exceeded government's compensation policy as follows:

- Reimbursement for use of a private vehicle at the rate of $600 per month. Government policy provides for a maximum of $85 per month plus 25 cents per kilometer.
- Reimbursement for two round trips for self and family to a destination mutually agreeable within the Province on an advance fare basis. Under government policy, employees are provided with a northern allowance based on family size. This employee is also receiving the northern allowance benefit.
- Annual fee for a personal credit card. Under government policy, employees are issued a credit card for which they pay no annual fees. This employee has a Board-issued credit card in addition to their own personal credit card for which the corporation has paid the annual fee.
- The above benefits totalling $39,797 were not reported on the employee's T-4's.

Figure 7 shows this employee's compensation as compared to what a government employee would have received over a two-year period.

Figure 7

Health Labrador Corporation
Compensation Package
1 January 1996 to 31 December 1997

Description	Province	Board
Employment income	$189,650	$189,650
Reimbursement for private vehicle	2,040	15,326
Family travels	-	16,103
Loss on sale of home	-	8,000
Credit card fees	-	368
Compensation paid	$191,690	$229,447
Annual value of compensation packages	$ 95,845	$114,724

Recommendation

The Board should comply with the Hospitals Act *and government policy.*

Purchasing

For the year ended 31 March 1997 the Corporation spent approximately $9.3 million on goods and services. The majority of expenditures relate to air transportation costs, medical supplies, drugs, office supplies, housekeeping supplies, capital expenditures and utilities. Our examination in this area included a review for compliance with the *Public Tender Act* and *Regulations*. It also included a review of air ambulance costs, support services and the use of corporate credit cards for compliance with government policies.

3.16 Health Labrador Corporation

1. The Public Tender Act

At the time of our review, the *Public Tender Act* required the Corporation to publicly tender for goods and services over $7,500 and where tenders were not required to be invited, to obtain prices either from at least three legitimate suppliers by direct quotation or by other means that the Corporation considers advisable, or establish for the circumstances a fair and reasonable price for the goods and services.

Our review of a random sample of 25 purchases disclosed that 11 were purchased as required by the *Public Tender Act* while the remaining 14 did not comply as follows:

- Ten purchases were not publicly tendered as required by the Board as required by the *Public Tender Act*. Figure 8 summarizes these purchases.

Figure 8

Health Labrador Corporation
Purchases Not Tendered
1 April 1995 to 31 December 1997

Cheque Number	Description	Amount	Corporation's Explanation
368	Medical gases	$ 19,192	Vendor used in the past.
429	Operation of food services	$ 44,765	Three proposals obtained including an internal proposal.
546	Upgrade of computer system	$ 8,089	Upgrade of existing system.
4609	Annual reports	$ 12,010	Only one newspaper provides distribution in Labrador.
10675	Rent on tanks	$ 18,028	Tanks supplied through the same company supplying gas.
11358	Three 1,000-gallon self-dyked tanks	$ 21,821	No other company could guarantee shipment at the beginning of the shipping season.
12175	Retirement and service awards	$ 12,223	Purchased two years supply in one year.
12514	Support services	$ 10,480	Three proposals obtained including an internal proposal.
17428	Rental of two photocopiers	$ 8,166	Quotations obtained.
19251	Service contract	$ 12,224	The purchase of the equipment was tendered and quotes obtained for service

- One tender call resulted in the acquisition of a vehicle for $24,070 that did not meet tender specifications. The vehicle was below tender specifications which resulted in an unfair advantage to this supplier.

- A tender for insurance services was advertised 2 March 1996 with a closing date of 13 March 1996. One bid was received two days after the closing date and another interested supplier cited a lack of sufficient details on which to base a bid and insufficient time as reasons for not submitting a bid. The contract was awarded for $57,568 to the bid received two days after the closing, while the other interested supplier was not provided the same opportunity to submit a late bid. We note that the letter of acceptance from a senior official of the Corporation to the successful bidder referenced acceptance of a bid dated 26 February 1996, five days before the tender was actually advertised. Furthermore, correspondence on file at the Corporation indicated that one supplier complained about insufficient information and time to prepare a proposal. That supplier did not submit a bid.

- One tender call stated a specific model number. Section 8.3.1.1 of the *Medical Capital Equipment Acquisition Process Guidelines*, which was prepared by the Department of Health and Community Services, notes that *"Specific manufacturers and/or models should not be mentioned as this will limit competition."* We note that the successful bidder supplied the specified model at a cost of $42,557.

- In one instance, medical equipment costing $21,772 was purchased. We could not determine if the lowest bid was accepted since only documentation from the successful bidder was available.

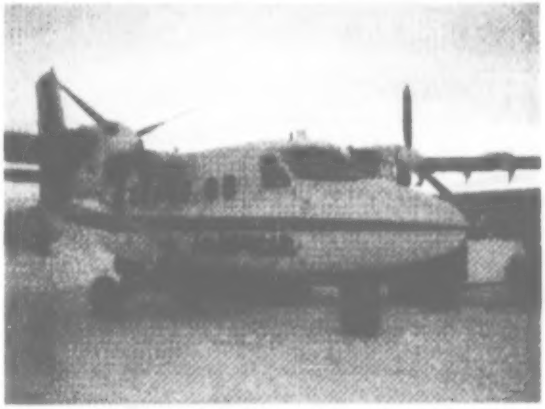
In addition, tender bids received in writing were not time and date stamped when received. Without this information we could not determine if all tender bids were received prior to closing. Another issue noted during our review was that one tender call (low bidder at $17,256) had to be retendered because the initial specifications did not include an important requirement. The second tender resulted in higher prices being quoted (low bidder at $17,443) for the same machine. Tender specifications should have been determined when the purchase decision was made and a check made to ensure that all specifications were included in the tender documents.

Recommendation

The Board should comply with the Public Tender Act *and regulations.*

2. Air Ambulance

The Corporation provides patient air transportation to and from isolated communities either on an emergency or non-emergency basis. Emergency transportation is known as Medivac while non-emergency services are Schedivac. Medivac transportation is provided through a contract with a local company while Schedivac is provided through the use of vouchers with any of the airlines. Both Medivac and Schedivac patients are required to pay $40 towards the cost of the flight.



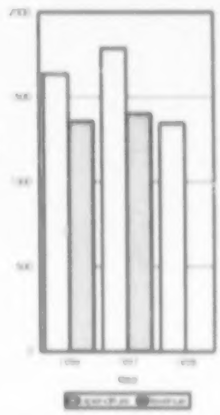
Aircraft used for air ambulance service.

For the year ended 31 March 1997 the Corporation spent $1.8 million for patient travel, an increase of $151,000 over the previous year as disclosed in Figure 9.

3.16 Health Labrador Corporation

Figure 9

Health Labrador Corporation
Air Ambulance
For the Year Ended 31 March
($ 000's)

Description	1996	1997	(9 months) 1998	Expenditure and Revenue
Transportation non-contract	$ 305	$ 908	$ 537	
Transportation contract	1,021	558	564	
Transportation other	23	10	16	
Salaries and benefits	238	255	194	
Materials and supplies	35	35	20	
Equipment rental	13	20	12	
	1,635	1,786	$ 1,343	
Less: Provincial grant	(1,285)	(1,285)		
Fees	(70)	(115)		
	(1,355)	(1,400)		
Net cost to Board	$ 280	$ 386		

Source: Health Labrador Corporation's General Ledger
(Revenue data for 1998 not available)

As can be seen from Figure 9, costs for patient transportation have exceeded budget in each of the past two years and based on the expenditure for the nine months in 1997-98 these costs are also expected to exceed budget.

Our review of air ambulance expenditures indicated the following:

- The Corporation does not maintain information on the number of patients using each type of service or the cost per person for each type of service. Therefore, it is not possible to effectively manage the cost of air ambulance services. This is especially important since the actual cost to the Corporation of providing this service significantly exceeds the amount of funding provided for this service by Government grants and patient fees. As a result, the cost of these services is increasing the Corporation's deficit.
- Air transportation payments are only to be made for patients with medical flight authorization. However, our review of these invoices disclosed that one airline was not attaching a copy of the voucher issued by the Corporation to their invoice. As a result, there were no checks made to ensure that this travel was legitimate and approved.

Recommendation

The Board should strengthen controls in order to effectively manage patient transportation.

3. Support Services

In December 1995, the Board requested three companies to submit proposals for the management of support services including dietetics, housekeeping, laundry, linen, materials management and maintenance.

The terms of reference for the request indicated the criteria for evaluation of the proposal would be as follows:

- Reduction of overall operating expenditures by 15%;
- Maintain acceptable and appropriate standard of service;
- Maintain acceptable and appropriate preventive maintenance programs; and
- Plan, implement, and manage a computerized materials management system for the whole region.

Our review of the proposal responses disclosed the following:

- There was no formal evaluation comparing submissions to the established criteria.
- The company with the proposal for the largest estimated savings for both dietetics and the other services was not the successful bidder.
- There is no system to monitor the provision of these services to ensure costs are reduced as indicated in the proposal. The successful proposals indicated costs would be reduced by $230,000 for dietetics and $343,000 for other support services. However, as indicated in Figure 10, costs for dietetics were only reduced by $11,000 while other support services costs increased by $109,000 over the previous year.

Figure 10

Health Labrador Corporation
Support Services Costs
31 March

Description	1996	1997	Variance
Maintenance	$ 1,336,111	$ 1,249,840	$ 86,271
Laundry	202,110	232,657	(30,547)
Housekeeping	1,085,095	990,398	94,697
Materials	271,043	284,322	(13,279)
Linen	48,245	47,704	541
Management Fees	-	246,622	(246,622)
Sub total	2,942,604	3,051,543	(108,939)
Dietetics	1,438,058	1,427,205	10,853
Total	$ 4,380,662	$ 4,478,748	$(98,086)

Source: Health Labrador Corporation's Financial Records

Recommendation

The Board should evaluate all proposals against established criteria and monitor these services to ensure initial objectives are being met.

4. Corporate Credit Cards

The Corporation has no policies on the use of corporate credit cards. In August 1996, the Corporation entered into an agreement with a credit card company to provide corporate credit cards to its employees. As at 31 December 1997, there were 61 such cards in the hands of employees. Of these, 5 were 30 days behind in their payments, 3 were 60 days behind and 4 were in collections. Of the 4 employees in collections, 3 have had their cards cancelled by the credit card company. In addition, these cards are being used for personal expenses and personal cash advances. Although the employee is responsible for all expenses incurred on these cards, the Corporation is subject to the liability under the agreement.

Recommendation

The Board should establish policies for the monitoring and use of the Corporation's credit cards.

Capital Assets and Inventory

1. Capital Assets

Melville Hospital at Happy Valley - Goose Bay.

As at 31 March 1997 the Corporation reported capital assets costing $17.3 million as described in Figure 11.

Figure 11

Health Labrador Corporation
Capital Assets
31 March 1997

Asset	Cost	Net Book Value
Land	$ 10,000	$ 10,000
Land improvements	151,749	107,526
Buildings	9,680,227	5,640,122
Equipment	7,404,750	2,563,657
Total	$ 17,246,726	$ 8,321,305

Source: Health Labrador Corporation's Audited 1997 Financial Statements

Our review indicated that the Corporation does not adequately control its capital assets. For example:

- The Corporation does not maintain a centralized listing of capital assets and control over capital assets is left to the discretion of the individual sites as there are no policies and procedures. Staff were not aware of the controls, if any, that existed at these sites.
- There is currently no listing of capital assets for the Melville Hospital. A consultant has been engaged to identify and assess the condition of the assets at the Melville Hospital in anticipation of a move to a new location under construction. The consultant has tagged the assets and is currently entering the assets into a computer system that will be maintained by the Corporation.
- Although there is a listing of capital assets for the Captain William Jackman Memorial Hospital, the list does not indicate the historic cost of the assets and therefore cannot be reconciled to the general ledger.
- Although there is currently no listing of capital assets for the Harry L. Paddon Memorial Home, staff are in the process of preparing one.

2. Inventories

As at 31 March 1997 the Corporation had $494,242 in inventories consisting of medical, surgical and general supplies of $292,720, drugs of $183,434 and fuel of $18,088. Our review of the year end inventory count sheets for the Melville Hospital disclosed a significant number of variances between the actual counts and the amount recorded on the inventory cards for the general medical supplies and the pharmacy inventory, excluding narcotics. Variances between the card and the count occurred for 657 of the 1,068 items listed for the pharmacy. In addition 205 items had no cards prepared. For medical supplies 151 of the 521 items showed a variance. The dollar value for these variances was very small; however, it does indicate a weakness in that cards are not being updated on a regular basis. We were informed that the reasons for these variances include nurses entering the storeroom after hours to get supplies without completing requisition slips and the large number of employees who have keys to the storeroom.

Recommendation

The Board should establish and document standard procedures for control of all of its capital assets and inventories. Compliance with these procedures should be monitored periodically.

Human Resources

Employee salaries and benefits are the largest expenditures of the Corporation. In 1996-97 this amounted to a combined cost of $20.9 million or 69% of the total expenses of the Corporation. Figure 12 shows the breakdown of the full-time equivalent positions.

Figure 12

Health Labrador Corporation
Staff Complement - Full-time Equivalent Positions
31 March 1997

Division	Management	Union	Total
Headquarters	12.00	15.00	27.00
Melville Hospital	4.00	111.11	115.11
Captain William Jackman Memorial Hospital	14.60	90.99	105.59
Harry L. Paddon Memorial Home	3.00	49.49	52.49
Nursing stations and clinics	1.00	65.18	66.18
Other	2.50	34.00	36.50
Total	37.10	365.77	402.87

Source: Reports sent to the Department of Health and Community Services by the Corporation in May 1997.

1. Staffing

A major responsibility for the Corporation is the hiring and evaluation of its staff. During the 1997 calendar year, the Corporation posted 99 positions, 81 internally and 18 externally at the Melville Hospital and only 10 positions, 5 internally and 5 externally at the Captain William Jackman Memorial Hospital. Our review of the staffing function disclosed the following:

- The Corporation's competition files did not always contain adequate documentation regarding the screening, interviewing and ranking of candidates. We were unable to determine the objectivity and completeness of the selection process. In one competition an unsuccessful candidate questioned the objectivity of the process given that one interviewer was related to the candidate who got the job. Although the employee did not interview their relative, they were in a conflict of interest situation because they participated in interviewing all of the other candidates, all of whom were unsuccessful.

- Corporation policy requires that performance appraisals be conducted annually for permanent employees during the first three years and biannually thereafter. For probationary employees a performance appraisal is required three weeks before the end of 65 days for union staff and three weeks before the end of six months for management staff. A review of 11 employee files at the Melville Hospital, including probationary employees, disclosed that no employee evaluations had been performed since the Board took over in November 1994. At the Captain William Jackman Memorial Hospital 17 of the Hospital's 132 employees had overdue performance appraisals of more than one year. Eight of these were in the Inpatient Services Department. In addition there were no performance reviews for senior managers even though the Corporation's auditors recommended this in their 1996 management letter.

2. Employee Leave and Overtime

During 1996-97, the Corporation paid out $209,810 in sick leave relief and $223,660 in overtime. Figure 13 shows sick leave per full-time equivalent position (FTE).

Figure 13

Health Labrador Corporation
Sick Leave per Full-time Equivalent Position
31 March 1997

Division	FTE	Sick Leave Hours				Cost
		Short-term	Long-term	Total	Average per FTE	
Melville Hospital and Harry L. Paddon Memorial Home	314	18,805	5,443	24,248	77	$ 122,439
Captain William Jackman Memorial Hospital	103	5,020	5,182	10,202	99	87,371
Total	417	23,825	10,625	34,450	83	$ 209,810

Source: Health Labrador Corporation's Analysis of Sick Leave

Our review of controls over employee leave and overtime for 22 employees at the Melville and Captain William Jackman Memorial hospitals disclosed the following:

- Leave forms could not be found for 9 out of the 11 employees selected at the Melville Hospital while all 11 forms were found at the Captain William Jackman Memorial Hospital. Without properly approved leave forms it is difficult to prove what type of leave the employee took.

- Three employees at the Melville Hospital and two at the Captain William Jackman Memorial Hospital showed credit balances ranging from 5 to 60 hours in their carry forwards of annual leave.

Recommendations

The Board should ensure that:

- *competition files are maintained and that job competitions are handled objectively both in fact and appearance;*

- *performance appraisals are being conducted in accordance with corporate policy; and*
- *leave and overtime are properly approved and documented.*

Board's Response

Recommendation on Financial Management of the Corporation

As noted in this report, the Board is in agreement that the current financial information system is not appropriate to meet financial reporting and budgeting requirements of this Board.

The Board is working in conjunction with the Department of Health and Community Services to obtain a financial information system that will meet the needs of all stakeholders.

Recommendation on Compliance Issues

Without an appropriate financial information system as noted in your report, it did not allow for timely reporting as required under the Hospitals Act.

With respect to complying with the Hospitals Act, the Board amended its By-laws to be consistent with Section 33 of the Hospitals Act at its meeting on September 26, 1998. In future, the Board will comply with government policy.

Recommendation on the Public Tender Act

The Board is in agreement that it should comply with the Public Tender Act and regulations.

Recommendation on Air Ambulance

The Board is currently in the process of strengthening controls with respect to information adequacy and policy development as it relates to patient transportation.

It is also the position of the Board to approach the Department of Works, Services and Transportation in order to recover previous years' deficits.

Recommendation on Support Services

The Board is in agreement with the recommendation.

A process will be put in place to monitor these agreements over the remainder of the contract period.

Recommendation on Corporate Credit Cards

The Board is in agreement with the recommendation.

Subsequent to your review, the Financial Services Division has been monitoring the use of credit cards and has taken appropriate action where the cards have been used inappropriately.

Recommendation on Capital Assets and Inventory

The Board concurs with the recommendation and will implement on a priority basis.

Recommendation on Human Resources

The Board is in agreement with the recommendations.

Subsequent to your review, the Board has taken action to ensure that leave and overtime are properly approved and documented, and that job completion files are appropriately maintained.

Various options for a regional Performance Appraisal system are being explored.

3.17 Monitoring of Hospital Boards

Department of Health

In its Budget Speech of 1992, the Government of Newfoundland and Labrador announced its intention of reviewing the number of health care boards operating institutions under *The Hospitals Act*. Carrick Consulting Services were retained to undertake this review and in February 1993, its report was presented to the Minister of Health. Government subsequently approved the creation of eight hospital boards and identified the hospitals, clinics, and other services for which each board would be responsible. Figure 1 outlines the hospitals which fall under the jurisdiction of each hospital board.

The New Janeway Children's Health and Rehabilitation Centre

Figure 1

Department of Health and Community Services
Hospital Boards
31 March 1998

Health Care Board	Date New Board was Established	Hospitals and Other Institutions
1. Health Care Corporation of St. John's	1 April 1995	•Children's Rehabilitation Centre, Pleasantville, St. John's •Dr. Charles A. Janeway Child Health Centre, St. John's •Dr. Leonard A. Miller Centre, St. John's •Dr. Walter Templeman Health Centre, Bell Island •General Hospital, St. John's •St. Clare's Mercy Hospital, St.John's •Salvation Army Grace General Hospital, St. John's •Waterford Hospital Corporation, St. John's
2. Avalon Health Care Institutions Board	1 April 1995	•Carbonear General Hospital, Carbonear •Dr. A. A. Wilkinson Memorial Health Centre, Old Perlican •Harbour Lodge, Carbonear •Inter-Faith Citizens Home, Carbonear •Lions Manor Nursing Home, Placentia •Placentia Hospital, Placentia
3. Peninsulas Health Care Corporation	1 January 1996	•Dr. G. B. Cross Memorial Hospital, Clarenville •Bonavista Peninsula Health Centre, Bonavista •Golden Heights Manor Nursing Home, Bonavista •Burin Peninsula Health Centre •Blue Crest Inter-Faith Home, Grand Bank •Grand Bank Community Health Centre, Grand Bank •U. S. Memorial Health Care Centre, St. Lawrence
4. Central East Health Care Institutions Board	1 November 1994	•James Paton Memorial Hospital, Gander •Lakeside Homes, Gander •Brookfield Hospital, Brookfield •Bonnews Lodge, Badger's Quay •Fogo Island Hospital, Fogo •Notre Dame Bay Memorial Hospital, Twillingate

Health Care Board	Date New Board was Established	Hospitals and Other Institutions
5. Central West Health Care Institutions Board	1 November 1994	•Central Newfoundland Regional Health Centre, Grand Falls-Windsor •Dr. Hugh Twomey Health Centre, Botwood •Harbour Breton Hospital, Harbour Breton •North Haven Manor, Lewisporte •Valley Vista Senior Citizens Home, Springdale •Green Bay Health Centre, Springdale •A. M. Guy Memorial Health Care Centre, Buchans •Baie Verte Peninsula Health Care Centre, Baie Verte • Carmelite House Senior Citizens Home, Grand Falls-Windsor
6. Western Health Care Corporation	1 January 1996	•Rufus Guinchard Health Centre, Port Saunders •Western Memorial Regional Hospital, Corner Brook •Dr. J.I. O'Connell Centre, Corner Brook •Calder Health Centre, Burgeo •Bonne Bay Health Centre, Norris Point •Sir Thomas Roddick Hospital, Stephenville •Dr. Charles L. LeGrow Health Centre, Port aux Basques •Bay St. George Senior Citizens Home, Stephenville Crossing •Inter-Faith Home for Senior Citizens, Corner Brook
7. Grenfell Regional Health Services Board	1 November 1994	•Dr. Charles S. Curtis Memorial Hospital, St. Anthony •St. Anthony Interfaith Home, St. Anthony
8. Labrador Health Services Board	1 November 1994	•Melville Hospital, Goose Bay •Harry L. Paddon Memorial Home, Happy Valley •Captain William Jackman Memorial Hospital, Labrador City •Churchill Falls Hospital, Churchill Falls

As part of the on-going audit work of our Office, we review the financial statements and other information of hospital boards on a regular basis. Our review of hospital boards in 1998 included an assessment and comparison of the financial results and the financial position of each of the eight boards for both 1997 and 1998. An overview of the financial position of each of the eight health care boards for both 1997 and 1998 is provided in Figure 2.

Figure 2 indicates that the health care boards are in poor financial condition. The figure also shows that, overall, the financial position of the boards has deteriorated since 1997. For example:

- All eight boards had bank indebtedness and/or special Board funds to finance a part of their operations. Bank indebtedness totalled $32.3 million and varied from $500,000 for the Grenfell Regional Health Services Board to $14.8 million for the Western Health Care Corporation. Bank indebtedness has increased by approximately 61% during 1998.
- The total net liability of $62.7 million represents the amount by which the health care corporations' current liabilities exceeded their cash convertible (liquid) assets. Cash convertible assets do not include inventories totalling $10.1 million and prepaid expenses totalling $7.3 million. The shortfall of $62.7 million shows that, as at 31 March 1998, the health care corporations did not have sufficient resources to pay their immediate financial commitments. The total net liability increased by approximately 49% during 1998.

Figure 2

Hospital Boards
Summary of Financial Information
31 March
($ Millions)

	Board								Total	
	# 1	# 2	# 3	# 4	# 5	# 6	# 7	# 8	1998	1997
Bank Indebtedness	7.1	2.4	2.3	2.3	2.0	14.8	0.5	0.9	32.3	20.1
Accounts Payable	24.5	1.9	3.5	3.5	4.6	9.7	2.4	1.7	51.8	54.0
Current Long-term Debt	2.0	0.1	0.1	0.1	0.3	0.1	0.1	-	2.8	2.5
Less: Accounts Receivable	(11.1)	(1.1)	(1.7)	(1.4)	(2.7)	(3.8)	(1.0)	(1.4)	(24.2)	(34.6)
Long-term Debt	2.4	4.2	6.2	4.6	5.8	4.7	2.9	1.3	32.1	33.7
Severance Pay	32.9	4.1	3.2	4.6	5.8	11.3	2.6	1.9	66.4	60.8
Vacation Pay	9.5	1.3	1.3	2.1	2.6	3.2	1.2	1.1	22.3	20.8

Source: 31 March 1998 Audited Financial Statements

- After adding in long-term debt, severance pay and vacation pay, Figure 2 shows that the total amount of funding required to meet the total liabilities of the health care corporations as at 31 March 1998 totalled $183.5 million. The total liabilities increased by approximately 17% during 1998.

The $183.5 million in total liabilities of the health care corporations as at 31 March 1998 will be affected by the results of current operations and the level of funding from Government. If the corporations have annual surpluses in the future, these surpluses could be used to fund their liabilities. If, on the other hand, the corporations have annual deficits, these deficits, along with the liabilities, will also have to be funded.

Figure 3 shows the annual results of operations for the health care corporations for the years ended 31 March 1997 and 31 March 1998. The figure indicates the deficits before non-sharable expenses and after non-sharable expenses. The Department of Health and Community Services does not fund certain expenditures called non-sharable expenses. These non-sharable expenses do not require a cash outlay in that particular year and include depreciation, amortization, gain (loss) on disposal of capital assets, adjustments to incentives, net board operations and changes in severance pay and vacation pay accrual. These non-sharable expenses, however, may have to be funded sometime in the future.

3.17 Monitoring of Hospital Boards

Figure 2

Hospital Boards
Summary of Financial Information
31 March
($ Millions)

	Board								Total	
	# 1	# 2	# 3	# 4	# 5	# 6	# 7	# 8	1998	1997
Bank Indebtedness	7.1	2.4	2.3	2.3	2.0	14.8	0.5	0.9	32.3	20.1
Accounts Payable	24.5	1.9	3.5	3.5	4.6	9.7	2.4	1.7	51.8	54.0
Current Long-term Debt	2.0	0.1	0.1	0.1	0.3	0.1	0.1	-	2.8	2.5
Less: Accounts Receivable	(11.1)	(1.1)	(1.7)	(1.4)	(2.7)	(3.8)	(1.0)	(1.4)	(24.2)	(34.6)
Net Liability	**22.5**	**3.3**	**4.2**	**4.5**	**4.2**	**20.8**	**2.0**	**1.2**	**62.7**	**42.0**
Long-term Debt	2.4	4.2	6.2	4.6	5.8	4.7	2.9	1.3	32.1	33.7
Severance Pay	32.9	4.1	3.2	4.6	5.8	11.3	2.6	1.9	66.4	60.8
Vacation Pay	9.5	1.3	1.3	2.1	2.6	3.2	1.2	1.1	22.3	20.8
Total Liabilities	**67.3**	**12.9**	**14.9**	**15.8**	**18.4**	**40.0**	**8.7**	**5.5**	**183.5**	**157.3**

Source: 31 March 1998 Audited Financial Statements

- After adding in long-term debt, severance pay and vacation pay, Figure 2 shows that the total amount of funding required to meet the total liabilities of the health care corporations as at 31 March 1998 totalled $183.5 million. The total liabilities increased by approximately 17% during 1998.

The $183.5 million in total liabilities of the health care corporations as at 31 March 1998 will be affected by the results of current operations and the level of funding from Government. If the corporations have annual surpluses in the future, these surpluses could be used to fund their liabilities. If, on the other hand, the corporations have annual deficits, these deficits, along with the liabilities, will also have to be funded.

Figure 3 shows the annual results of operations for the health care corporations for the years ended 31 March 1997 and 31 March 1998. The figure indicates the deficits before non-sharable expenses and after non-sharable expenses. The Department of Health and Community Services does not fund certain expenditures called non-sharable expenses. These non-sharable expenses do not require a cash outlay in that particular year and include depreciation, amortization, gain (loss) on disposal of capital assets, adjustments to incentives, net board operations and changes in severance pay and vacation pay accrual. These non-sharable expenses, however, may have to be funded sometime in the future.

Figure 3

Hospital Boards
Summary of Annual Operating Results
1996-97, 1997-98
($ Millions)

	Deficit (Surplus) before Non-Shareable Expenses		Deficit (Surplus) after Non-Shareable Expenses	
	1997	1998	1997	1998
Health Care Corporation of St. John's	4.8		12.9	5.0
Avalon Health Care Institutions Board	1.1	1.1	1.2	1.7
Peninsulas Health Care Corporation	0.4	1.8	0.7	2.1
Central East Health Care Institutions Board	0.1	1.1	(0.2)	2.1
Central West Health Care Institutions Board	1.8	(0.6)	4.8	2.0
Western Health Care Corporation	4.8	4.4	5.8	7.0
Grenfell Regional Health Services Board	(0.1)	0.8	(0.1)	0.8
Labrador Health Services Board	1.0	1.8	1.1	2.3
Total	**13.8**	**10.1**	**26.2**	**23.0**

Source: 31 March 1998 Audited Financial Statements

Figure 3 indicates that most hospital boards have incurred annual deficits for the last two years. The figure shows the following:

- For the year ended 31 March 1997, six of the eight boards incurred deficits. Deficits during the year ranged from approximately $700,000 for the Peninsulas Health Care Corporation to $12.9 million for the Health Care Corporation of St. John's. There was a surplus of approximately $200,000 for Central East Health Care Institutions Board and $100,000 surplus for Grenfell Regional Health Services Board after non-shareable expenses.

- For the year ended 31 March 1998, the hospital boards again incurred significant deficits. In 1998, all eight boards incurred deficits. Deficits during the year ranged from approximately $800,000 for Grenfell Regional Health Services Board to $7 million for Western Health Care Corporation.

It appears that the health care corporations are not able to operate at the current funding levels. Government has recognized the need for additional funding to health care boards and, in July 1997, provided an additional $20 million in funding. Without this additional $20 million of funding, the 1998 reported deficits would have been increased by this amount. Government has also committed to providing an additional $10 million for the 1998-99 year. Despite the additional funding provided, the boards continue to incur significant operating deficits and maintain a high debt load.

Figure 3

Hospital Boards
Summary of Annual Operating Results
1996-97, 1997-98
($ Millions)

	Deficit (Surplus) before Non-Shareable Expenses		Deficit (Surplus) after Non-Shareable Expenses	
	1997	1998	1997	1998
Health Care Corporation of St. John's	4.8	-	12.9	5.0
Avalon Health Care Institutions Board	1.1	1.1	1.5	1.7
Peninsulas Health Care Corporation	0.4	1.5	0.7	2.1
Central East Health Care Institutions Board	0.1	1.1	(0.2)	2.1
Central West Health Care Institutions Board	1.5	(0.6)	4.5	2.0
Western Health Care Corporation	4.8	4.4	5.8	7.0
Grenfell Regional Health Services Board	0.1	0.8	(0.1)	0.8
Labrador Health Services Board	1.0	1.8	1.1	2.3
Total	[illegible]	[illegible]	[illegible]	[illegible]

Source: 31 March 1998 Audited Financial Statements

Figure 3 indicates that most hospital boards have incurred annual deficits for the last two years. The figure shows the following:

- For the year ended 31 March 1997, six of the eight boards incurred deficits. Deficits during the year ranged from approximately $700,000 for the Peninsulas Health Care Corporation to $12.9 million for the Health Care Corporation of St. John's. There was a surplus of approximately $200,000 for Central East Health Care Institutions Board and $100,000 surplus for Grenfell Regional Health Services Board after non-shareable expenses.

- For the year ended 31 March 1998, the hospital boards again incurred significant deficits. In 1998, all eight boards incurred deficits. Deficits during the year ranged from approximately $800,000 for Grenfell Regional Health Services Board to $7 million for Western Health Care Corporation.

It appears that the health care corporations are not able to operate at the current funding levels. Government has recognized the need for additional funding to health care boards and, in July 1997, provided an additional $20 million in funding. Without this additional $20 million of funding, the 1998 reported deficits would have been increased by this amount. Government has also committed to providing an additional $10 million for the 1998-99 year. Despite the additional funding provided, the boards continue to incur significant operating deficits and maintain a high debt load.

Department's Response

The Department is aware of and concerned with the financial position of the regional hospital boards. The Department has conducted its own review of the financial positions and is currently working with these Boards to prepare a plan to deal with the accumulated deficits. With respect to specific details of the report the following points should be noted.

Figure 2

Net Liability

Figure 2 indicates a net liability of $62.7 million. Approximately $11 million of this represents capital costs related to the construction of the children's hospital. This amount is currently being financed with short term borrowing and will eventually be converted to long term debt and repaid with a systematic payment schedule. Approximately $38.5 million represents the regional hospital board's accumulated deficits on operations and approximately $13 million being used to finance other working capital assets such as inventories.

Long-term Debt

The long term debt figure of $32.1 million relates primarily to financing for long term care facilities operated by the regional hospital boards. Approximately $24.5 million has been financed mostly through CMHC for these facilities where the financing has received a subsidy of either a reduced interest rate or a contribution by CMHC toward the interest costs. This debt is being repaid on an annual basis through a fixed payment determination.

Severance Pay/Vacation Pay

These two amounts of $86.2 million represent an accrual of the vacation and severance liability recorded by the boards over the years, but does not require a cash outlay on an ongoing basis. An employee who leaves during a period is paid the amount of vacation and severance owed and the associated cash costs are paid and charged to current operations. The Department does not fund these total liabilities on a cash basis.

Figure 3

Figure 3 provides information on the (surplus)/deficit positions of the boards before and after non-shareable expenses. The report specifically identifies the (surplus)/deficit positions after non-shareable expenses. These deficit positions do not represent the funding requirements since they include non cash costs such as amortization and accrued vacation and severance. The Department funds the boards based on the operations before non-shareable expenses. In 1998 the total deficit position the Department would use for its funding determination would be the $10.1 million as opposed to the $23 million. The Department only recognizes cash costs or the accrual of normal operating costs at the end of a year which are intended to be paid in the following year.

Introduction

As part of our audit of expenditures made through the Consolidated Revenue Fund (CRF) for the year ended 31 March 1998 we performed a general review and analysis of amounts paid relating to purchased services, professional services and allowances and assistance. The purpose of our review was to assess whether the expenditures had been properly authorized and approved and whether they were in compliance with legislation such as the *Public Tender Act* and Government policies such as the *Guidelines Covering the Hiring of External Consultants*.

During the year we examined certain payments made by the Department of Human Resources and Employment relating to services provided to individuals. As of 1 April 1998, these services were provided by the Department of Health and Community Services.

We reviewed the expenditures made by the Department relating to Allowances and Assistance. Our objective was to determine, for the expenditures examined, whether the Department had complied with legislation and government policy.

Many of the services provided by the Department are provided to individuals. In the past, the Department has taken the position that these services were purchased for individual clients, and that the client is deemed to be the purchaser of the service even though payment is made by the Department. Because these are expenditures of public money they should comply with the *Public Tender Act* and the *Guidelines Covering the Hiring of External Consultants*.

Our review of expenditures made to specific service providers disclosed the following:

- **Payments to Firm A Totalling $167,800**

  Counselling Firm A provides specialized counselling services to individuals and families. The firm generally charges $75 per hour for counselling, including missed appointments. During 1997-98, the firm was paid $167,800 for approximately 1,900 hours of counselling.

  When the cost of a consultant is estimated to be in excess of $50,000, Government's *Guidelines Covering the Hiring of External Consultants* require that public proposals be called. Our review indicated that the Department did not request public proposals as required under the *Guidelines*.

- **Payments to Firm B Totalling $193,700**

  Counselling Firm B provides counselling services to clients of the Department. During 1997-98, this firm was paid $193,700 for approximately 2,200 hours of counselling service at $75 per hour.

  When the cost of a consultant is estimated to cost over $50,000, Government's *Guidelines Covering the Hiring of External Consultants* require that public proposals be called. Our review indicated that the Department did not request public proposals as required under the *Guidelines*.

- **Payments to Counsellor C Totalling $57,900**

  Counsellor C provides private parent coaching for children and their families. The cost of this service is $20 per hour and double on statutory holidays. During 1997-98, this individual charged the Department $57,900 for approximately 2,800 hours of service.

  Our review indicated that the Department did not request public proposals for these services as required under the *Guidelines*.

- **Payments to Firm D Totalling $388,200**

  Counselling Firm D provides respite service to clients of the Department. During 1997-98, this firm was paid $388,200, primarily for respite care at $12.50 per hour.

Our review indicated that the Department did not request public proposals for these services as required under the *Guidelines.*

- **Payments to Supplier A Totalling $725,200**

  The Department provides drug subsidization for individuals on income support. This includes respiratory equipment, oxygen tanks and liquid oxygen provided to individuals in their homes. These services are requested and provided on an individual basis. During 1997-98, the Department paid this supplier $725,200.

  The *Public Tender Act* requires the public tendering of goods and services when the cost is estimated to exceed $7,500. The Department did not tender for these services as required by the *Public Tender Act.*

- **Payments to Supplier B Totalling $320,500**

  Supplier B is a corporation which provides medical supplies such as wheel chairs and walkers. During 1997-98, this firm was paid $320,500. Although several of the items purchased were for amounts greater than the $7,500 limit set by the *Public Tender Act*, these items were not publicly tendered.

Recommendation

The Department of Human Resources and Employment should comply with the Public Tender Act *and with* Government's Guidelines Covering the Hiring of External Consultants.

Department's Response

In response to your review, I offer the following information for your consideration. Guidelines covering the hiring of individual consultants are written from the perspective of Government acquiring a service for its benefit. The services you have listed are generally services purchased for individual clients, and the client is deemed to be the purchaser of the service even though payment is through the Department. HRE(the Department of Human Resources and Employment) and HCS (the Department of Health and Community Services) have historically treated each client as unique and has approved services based on a case plan. The services for one case would not exceed $50,000, but an aggregate of cases assigned to the one vendor may exceed this limit.

With respect to the Public Tender Act, the Department of Social Services received a legal opinion in 1990 which concluded that "the acquisition of goods and services for social assistance recipients is not directly for the benefit of the Department of Social Services, and therefore the Public Tender Act does not apply."

Child Welfare has used external counselling services for protection cases and children in care for several years. The need for these services has increased with increased caseload numbers, and an increase in the complexity of child welfare cases. The need for parent coaching and respite care has also increased because of increased caseload and caseload capacity....the client is actually hiring the agency.

Clients residing in the Province who are financially eligible may access oxygen therapy through the Special Assistance Program....As in the other service areas, the process which has been used for some time through the Special Assistance Program is to process each client request separately. Therefore, upon receipt of a new request, the Accounting clerk would submit the specifications to three companies who deliver the services. The successful bidder would be notified and would continue to deliver the service based on that quote. If an item was in excess of $7,500 then it has been the practice to process the request through government purchasing. According to our records, the total actual expenditure for oxygen for the year 1997-98 was $839,522. It is conceivable that one company would get the greater portion of that business because their prices would be more competitive.

Equipment is also available through the Special Assistance Program. The actual prescription submitted to the Program is sent to three agencies. Each item per client is quoted on an individual basis and the company with the lowest bid is awarded the sale. If a client requires more than one item then each item is quoted separately. Again it has been the practice that if the item was in excess of $7,500 it went through government purchasing. The 1997-98 expenditure for equipment and orthotics was $1,073,955. The $320,200 is a portion of the $1.07 million.

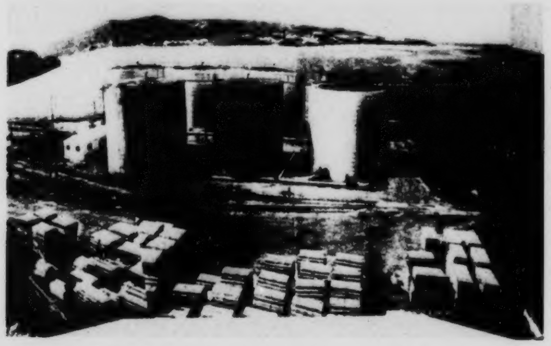
There is obviously a need to improve the tendering practices. Compliance to the tendering process is being considered for these services where this is feasible. For example, the majority of counselling services are utilized within Health and Community Services - St John's Region, and this region is pursuing a "call for proposals" to standardize the services available to clients. With the decentralization of oxygen to the regions, a standardized tendering process which could be used across regions is being considered. However, acquisition of these for individual clients creates some unique challenges in designing a tendering process which will be both fair to the client and meet operational needs. My officials will continue to work with the regional boards, who now have governance responsibility for these services, to establish new tendering procedures.

3.19 The Privatization of Newfoundland Hardwoods Limited

Department of Industry, Trade and Technology

Introduction

In our 1997 Annual Report to the House of Assembly, we reported on the results of our review of the privatization of Newfoundland Hardwoods Limited (the Corporation). This review disclosed that although the assets of the Corporation were sold in August and September 1995, as of November 1997, the transactions had yet to be finalized, audited financial statements for the years ended 31 March 1996 and 31 March 1997 had not been released, and the Province had only received $5.6 million of the estimated $7.0 million. Furthermore, while the $7.0 million in estimated proceeds are net of environmental remediation costs estimated to be $1.1 million, these environmental remediation costs have yet to be incurred.



Clarenville Wood Treatment and Asphalt Storage Facility

Scope and Objectives

In 1998 we completed a follow-up review of the privatization of Newfoundland Hardwoods Limited to determine:

- whether the transactions have been completed and the final financial statements have been prepared;
- the total proceeds and costs of privatization; and
- whether the Province is monitoring the purchasers of the assets of Newfoundland Hardwoods Limited to ensure they are complying with the terms of the sale agreements.

Conclusion

Audited financial statements have been completed to 31 March 1998; however, there are still issues regarding the wind-up of the pension plan and the removal of storage tanks which have to be addressed before the sale of the Corporation can be considered complete.

Total proceeds from the sale of assets to date has been $5.6 million, $1.4 million less than the $7.0 million net proceeds originally estimated. The difference of the $1.4 million is primarily attributable to payments to consultants and other administrative costs which were not anticipated.

The Province does not have a formal process to determine whether the companies which purchased the assets of Newfoundland Hardwoods Limited have complied with the terms of the privatization agreements. However, information has been provided by the companies, at the request of the Department of Industry, Trade and Technology, to address the requirements of the various sales agreements. The information provided by the companies has not been verified by the Province.

Findings

Completion of Sale

Although most of the assets of the Corporation were sold in 1995, the company has not yet been wound up. Audited financial statements have been prepared for the year ended 31 March 1998; however, there are still a number of issues which have to be addressed before the sale of the Corporation can be considered complete.

The wind-up of one of the Corporation's pension plans is expected to generate approximately $400,000 for the Corporation; however, this matter is still not finalized. As at 31 March 1998, the Corporation had total net assets of $621,000. The pension plan surplus and the Corporation's net assets may be sufficient to pay the environmental consulting and remediation costs which have yet to be incurred. These costs were originally estimated at $1.1 million but have recently been revised by the Department of Industry, Trade and Technology to be between $200,000 and $800,000.

For the years ended 31 March 1997 and 31 March 1998 the Corporation incurred expenses of approximately $125,400 with all but $100 related to professional and consulting fees.

Monitoring of Purchasers

As a result of the privatization process, the purchasers made significant financial commitments which were to be realized in future years. As a result, certain aspects of the agreements need to be monitored to ensure compliance. The Province has not established any formal procedures for monitoring these commitments; however, it has requested information from the purchasers, periodically. There are no procedures for verifying the information provided by the companies. Figure 2 summarizes the commitments and the status to date.

Figure 2

Newfoundland Hardwoods Limited
Status of Divestiture Commitments
31 March 1998

Commitment	Status
Newfoundland Asphalt Limited (Irving) had agreed to undertake capital investment at each asphalt plant. $1 million had been allocated by the purchaser for this investment.	As of November 1997, the company reported that approximately $770,000 had been spent by the company to upgrade facilities.
Newfoundland Asphalt Limited was to provide a pension for employees.	As of November 1997, the company reported that a pension plan had been provided that is satisfactory to the union.
WPI must pay 10 percent of its net profits for each fiscal year from 31 October 1996 to 2000.	The Department of Industry, Trade and Technology reported that approximately $29,600 and $9,200 were received for the years ended 31 October 1996 and 1997, respectively.
WPI was to pay Newfoundland Hardwoods Limited for its inventory based on an established formula.	Approximately $3.4 million was received for the inventory in accordance with the established formula.
WPI must fulfill the commitments under the EDGE program.	As at 1 December 1997, WPI has reported that it has maintained an average of 22 permanent jobs and has undertaken capital investment of approximately $1.1 million.
WPI must not locate the assets outside the Province within three years.	The Department of Industry, Trade and Technology indicated that the assets were sold three years ago and there is no indication that WPI intends to transfer the assets outside the Province.

Source: Sales Agreements and Information Provided by the Department of Industry, Trade and Technology

Department's Response

As you indicated, there are a few issues outstanding with respect to the privatization process, however, I am confident that these issues will be resolved in the coming fiscal year.

With respect to the monitoring of the respective purchasers (WPI and Newfoundland Asphalt Limited) under the terms of the privatization agreement I offer the following comments. As you are aware, the Department obtains a copy of WPI's annual financial statements as well as other detailed information regarding employment levels and capital expenditures. As well, we meet annually with WPI officials to discuss their plans for the coming year. With respect to Newfoundland Asphalt, we request that company on an annual basis to advise us as to the status of its commitment under the sale agreement. Our monitoring process included regular site visits to the Clarenville location. These actions have satisfied the Department that the purchasers have, to date, lived up the terms of the sale agreement.

3.20 ACF Equity Atlantic Inc.

Introduction

In April 1996, the Ministers of Industry, Trade and Technology, and Finance entered into a Unanimous Shareholders' Agreement (the Agreement) with seven banks, and the three other Atlantic provinces. The Agreement provided for the establishment of ACF Equity Atlantic Inc. (ACF). The primary mandate of ACF is to make direct equity or quasi-equity investments in small- and medium-sized companies in Atlantic Canada that appear to have moderate or significant growth potential. The life of ACF will be limited to ten years with provision for three one-year extensions subject to approval by a majority of the shareholders.

Total capital funding for ACF under the agreement was to come from the sources shown in Figure 1. As indicated in the Figure, Newfoundland's investment in ACF Equity Atlantic Inc. is expected to total $2.39 million.

Figure 1

ACF Equity Atlantic Inc.
Sources of Capital Funding

Source	Type of Funding	Funding Value ($)
Banks	10,000,000 common shares	**10,000,000**
Provinces		
New Brunswick	3,150,000 common shares	3,150,000
Prince Edward Island	570,000 common shares	570,000
Nova Scotia	3,890,000 common shares	3,890,000
Newfoundland	2,390,000 common shares	2,390,000
Total Provinces	10,000,000 common shares	**10,000,000**
Atlantic Canada Opportunities Agency (ACOA)	Repayable grant	**10,000,000**
Total Capital Funding		**30,000,000**

Source: Unanimous Shareholders' Agreement

In the case of the four Atlantic Provinces, each province's share of the aggregate provincial share commitment was pro-rated on the basis of population. The Agreement was amended in 1997 to permit an eighth bank to become a co-investor in ACF. This bank will acquire 150,000 common shares in ACF over the life of the Agreement.

Under the Agreement, the Board of Directors for ACF will consist of nine individuals, with at least one director resident in each of the four provinces and at least eight of the nine directors being residents of Atlantic Canada. There are two directors on the Board who are residents of the Province. ACF's offices are located in Halifax, Nova Scotia.

We completed our review of the Province's investment in ACF in October 1998. Our review included an analysis of the terms of the Shareholders' Agreement and the current status of the Province's investment in ACF. Our objectives were to determine:

- the extent of the Province's investment in ACF;
- the level of investment by ACF in the Province;
- the remaining commitment the Province has in relation to ACF; and
- the process used by the Department of Industry, Trade and Technology to monitor the Province's investment in ACF.

Findings and Recommendations

1. Province's Investment in ACF

In April 1996, the Province invested $956,000 in ACF in exchange for 956,000 common shares. This represented 40% of the Province's share of the total investment in ACF of 2,390,000 common shares. Under the Agreement, the Province was to

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Scope and Objectives

We completed our review of the Province's investment in ACF in October 1998. Our review included an analysis of the terms of the Shareholders' Agreement and the current status of the Province's investment in ACF. Our objectives were to determine:

- the extent of the Province's investment in ACF;
- the level of investment by ACF in the Province;
- the remaining commitment the Province has in relation to ACF; and
- the process used by the Department of Industry, Trade and Technology to monitor the Province's investment in ACF.

Findings and Recommendation

1. Province's Investment in ACF

In April 1996, the Province invested $956,000 in ACF in exchange for 956,000 common shares. This represented 40% of the Province's share of the total investment in ACF of 2,390,000 common shares. Under the Agreement, the Province was to subscribe to an additional 30% (717,000 shares) of its total commitment in April 1998 and the remaining 30% (717,000 shares) in April 2000.

The April 1998 subscription was postponed due primarily to the delay in investments being made by ACF.

2. Investment by ACF

ACF intends to make equity or quasi-equity investments in small- or medium-sized businesses operating in Atlantic Canada but with the potential to trade outside their local area. At least 50% of the financing will be applied to new growth-related activities in any sector except real estate and retail. Also, the investment amount will typically be between $150,000 and $1.5 million, and the project should show the potential to deliver a superior rate of return. As part of its Shareholders' Agreement, at the conclusion of year five ACF is required to repay to its shareholders and ACOA their share of any disbursed but unspent funds, that is, those monies not invested by ACF or used for its operating costs.

The original budget for the fiscal year ended 31 October 1997 called for the completion of four investments in that year. As at 31 October 1997, only one investment of $1.5 million was completed. By 31 August 1998, four investments totalling $4.333 million had been completed, one of which was additional funding for an earlier investment. Two of the four investments, totalling $1.833 million, were in New Brunswick, one investment for $1.5 million was in Nova Scotia with the other being for $1.0 million in this Province.

3. Remaining Commitment by Province

In the 1997-98 Budget, the Department of Industry, Trade and Technology was provided with $722,000 representing its second phase investment in ACF. This amount was budgeted a year earlier than expected under the Agreement, which called for the second investment to be made in April 1998. No funds were expended from this activity during 1997-98. Conversely, in the 1998-99 Budget, the Department was not provided any funding for the ACF investment, even though the investment was due in April 1998. The second investment was delayed from the date originally set in the Agreement and had not been made at the time of our review (October 1998). The final investment of $717,000 is scheduled for April 2000.

4. Monitoring

ACF has indicated that it would provide the Department of Industry, Trade and Technology with quarterly updates on its activities, but this has not occurred. For the year ended 31 October 1997, the Department received interim reports as of June and July 1997, audited financial statements, a Chairman's report and a report to the investor committee. For the year ended 31 October 1998, the Department received interim reports as of May and July 1998. This information was not routinely forwarded to the Department as agreed by ACF, but appears to have resulted from requests by the Department, one of which was in response to a query from our Office. The reports received vary considerably in their presentation and the amount of information provided.

Recommendation

The Department should obtain reports on a regular basis so that they can adequately monitor the Province's investment of $956,000 which is expected to increase to $2.39 million by April 2000.

Department's Response

No Response Provided.

3.21 Newfoundland Government Fund Limited

The Newfoundland Government Fund Limited was incorporated on 10 November 1995 under the *Corporations Act* of the Province of Newfoundland. All shares of the Corporation are held by Ministers of the Crown on behalf of the Province. Its affairs are governed by a Board of Directors which is elected by the shareholders of the Corporation.

The Corporation is a Government-administered venture capital fund under the *Immigration Act* (Canada) and Regulations. Under the Canadian Immigrant Investor Program, the Corporation issued an Offering Memorandum in September of 1996 to raise funds from immigrant investors in order to provide loan and equity capital to establish, expand, purchase, maintain or revitalize businesses or commercial ventures in Newfoundland. For the immigrant investors, in addition to earning a nominal return on their capital, their investment in the Corporation helps satisfy a portion of their visa requirements under Canada's Immigrant Investor Program.

The offering was comprised of units each of which represents a $250,000 promissory note bearing interest at the simple rate of 2% per annum. Although the promissory note is repayable in full five years from the date on which 70% of the investor proceeds are invested or upon refusal of an investor's Canadian visa application, neither the Government of Canada nor the Government of the Province of Newfoundland offers any guarantees or assurances of a return on an investor's original investment and neither government is liable for any loss or damages that may be suffered by an investor as a result of the investment in the securities. The minimum and maximum amounts of the offering were $3,500,000 (14 units) and $35,000,000 (140 units) respectively. The offering was scheduled to expire on 30 June 1998; as at that date a total of 45 investment units were closed, representing $11,250,000 of investment proceeds received by the Corporation. Two more units had closed by 30 September 1998.

In undertaking the offering, the Corporation engaged the services of an escrow agent and a distribution agent for the purposes of facilitating the marketing and closing of these investment units. For the provision of these services, as at 30 September 1998 the Corporation incurred distribution and marketing fees of $822,500 (7% of the offering proceeds of $11,750,000) and reporting and liaison fees of $63,863 (0.6% annually of the offering proceeds).

The first project to receive funding from the Corporation is a health care facility on the Connaigre Peninsula. In August 1998 the prime consultants for the project were selected, and contracts for site preparation, and foundations and site services work were awarded in September 1998. As at 30 September 1998 a total of $1,200,000 had been disbursed by the Corporation toward this project. As at that date no formal action had been taken on a second proposed project.

My Office completed the financial statement audits of the Corporation for the period 10 November 1995 to 31 December 1996 and for the year ended 31 December 1997. Figure 1 shows the Corporation's revenue and expenditure up to 31 December 1997.

Figure 1

Newfoundland Government Fund Limited
Revenue and Expenditure
10 November 1995 to 31 December 1997

	Amount
Revenue: Interest	$ 89,807
Expenditure:	
Consulting and professional fees:	
- Accounting and auditing	64,183
- Consulting	22,111
- Distribution, marketing and reporting	454,888
- Legal	147,810
	688,992
Banking and escrow application fees	7,893
Interest to investors	57,151
Printing and publishing costs	43,248
Total expenditure	797,284
Excess of expenditure over revenue	$707,477

For administrative purposes, the Corporation is operated by the Department of Industry, Trade and Technology and although expenses related to salaries, accommodations and administration are incurred by the Department on behalf of the Corporation, these costs have not been determined and are not included in the above expenditures.

Our review of the Corporation indicated the following:

Compliance with Canadian Immigration Regulations

As an approved government-administered venture capital fund, the Corporation is required to comply with the Canadian Immigration Regulations under the *Immigration Act* (Canada). In accordance with the Regulations, the Minister of Citizenship and Immigration Canada may suspend the approval of the Newfoundland Government Fund Limited if the Corporation does not comply with certain terms or conditions. The Corporation is not in compliance with the following Regulations:

- The Regulations require that the escrow agent hold the unit certificates that represent the securities sold to an investor until the investor's minimum holding period of five years expires. It is the responsibility of the Corporation to provide the escrow agent with these certificates at the time that the units are closed. At 31 December 1997, 25 units had been closed; however, no certificates had been deposited with the escrow agent. During the audit, the unit certificates were subsequently issued and forwarded to the escrow agent. During our subsequent visit in October 1998, we noted that one certificate had not been issued for a unit which had closed 4 September 1998.
- The Regulations require that the Corporation invest at least 70% of the investment proceeds in eligible business operations within 9 months after the release of the proceeds from the escrow agent. As at 30 September 1998, $5,750,000 representing 23 units had been released for more than 9 months. Under the Regulations, $4,025,000 (70%) of this amount should have been invested in projects, however only $1,200,000 (21%) had actually been invested. Because of the Corporation's non-compliance in beginning eligible projects, Citizenship and Immigration Canada has not granted the Corporation a marketing extension beyond 30 June 1998, and the Corporation is therefore not currently permitted to pursue new investors.
- The Regulations require that the Corporation provide annual audited financial statements to Citizenship and Immigration Canada within 140 days after the end of each financial year i.e. 20 May. The Corporation's financial statements for the year ended 31 December 1996 and 1997 were not submitted to the federal department until June 1998.

Compliance with the Confidential Offering Memorandum

The Corporation issued a Confidential Offering Memorandum in September 1996 which outlined the terms and conditions of investment to potential investors. The Corporation is not in compliance with all of the terms of the Confidential Offering Memorandum, nor has it exercised all of its rights in accordance with the Memorandum:

- To enable the Corporation to refund those unit holders whose visa applications are rejected, the Corporation is required to establish a repayment account and deposit 20% of the subscription proceeds in the account for investment in Canadian liquid securities. At 31 December 1997, the balance in the Corporation's repayment account was $718,501, however, in accordance with the 20% requirement, the balance should have been $1,250,000.

- The escrow agent is required to distribute annual audited financial statements to investors within 120 days of 31 December i.e. 30 April. The Corporation's financial statements for the year ended 31 December 1997 were not distributed to investors until 24 June 1998. In addition, the Offering Memorandum requires that unaudited interim financial statements for 30 June be distributed to investors within 90 days i.e. 28 September. Such statements have never been issued.

- Under the terms of the Confidential Offering Memorandum, subscribers are required to make a minimum non-refundable deposit of $50,000, with the balance to be paid within 60 days of the deposit date. Based on discussions with officials from the Corporation and the escrow agent, the Corporation is not enforcing these requirements. For example, of 48 deposits with the escrow agent at 31 December 1997, 15 were under $50,000, ranging as low as $9,470. In addition, 66 subscribers had no funds on deposit or an unknown amount held on deposit in a foreign bank. Of the 48 subscribers who had deposits with the escrow agent at 31 December 1997, 26 dated back more than 60 days, with one deposit dating from December 1996.

- Included as part of the Confidential Offering Memorandum is a Distribution Agreement which outlines the terms and conditions under which the offering is marketed. In accordance with the terms of this Agreement, the distribution agent may charge the Corporation marketing expenses of up to 1% of the subscription proceeds (maximum $350,000). The maximum 1% of proceeds received to date has been charged and deducted by the distribution agent. The Corporation, however, has not requested any support for the marketing expenses charged by the agent. As a result, the Corporation cannot be assured that it has paid for legitimate marketing expenses.

Consulting and Professional Services

As indicated in Figure 1, $688,992 of the Corporation's expenditure of $797,284 relates to consulting and professional services. The Corporation has not developed any policies regarding the selection, monitoring and evaluation of consultants. Furthermore, the Corporation could not provide information as to how the various consultants were selected.

Corporation's Records

During the audit, we noted that the Corporation's records were not properly maintained. This resulted in the Corporation misplacing the original share certificates and not being able to readily provide other corporate records, such as the Corporation's articles of amendment, investor subscription documents, invoices and documentation of federal approval of the Fund.

Recommendations

The Corporation should comply with the Immigration Act *(Canada) Regulations.*

The Corporation should ensure compliance with the Confidential Offering Memorandum and should consider all of its rights under the Memorandum.

The Corporation should develop policies regarding the selection, monitoring and evaluation of consultants.

The Corporation's records should be properly maintained.

Corporation's Response

No Response Provided.

Department of Municipal and Provincial Affairs

Introduction

The Newfoundland and Labrador Housing Corporation (the Corporation) operates under the authority of the *Housing Corporation Act*. The Corporation provides housing and related programs for the benefit of the residents of the Province with priority given to those most in need. Its affairs are governed by a Board of Directors appointed by the Lieutenant-Governor in Council.

On 22 April 1997, the Corporation entered into an agreement with Canada Mortgage and Housing Corporation (CMHC) to consolidate the management and administration of the social housing programs previously administered by the Corporation and CMHC. Under the agreement, these social housing programs will be administered solely by the Corporation.

Under the Agreement, the Corporation assumes CMHC's responsibilities for the management and administration of the social housing programs to which the Agreement applies. In return for the Corporation carrying out these responsibilities, CMHC will provide funding in accordance with the Agreement. This funding consists primarily of annual funding from 1997-98 through 2038-39, commencing at $55.3 million and reducing each year until 2038-39 at which time funding by CMHC will cease.

The $55.3 million was developed through a series of negotiations between CMHC and the Corporation. In substance, it was intended to represent the 1995-96 costs of operating the social housing programs administered by the Corporation ($49.2 million for 9,400 units) and the 1995-96 subsidies paid by CMHC for the operation of its portfolio ($6.1 million for 4,100 units).

A total of over $1.4 billion in annual funding will be provided to the Corporation over the forty-two year term of the Agreement. In addition to the annual funding, CMHC also paid the Corporation a one-time allowance of $5.9 million for future increases in costs due to inflation, changes in interest rates, and losses on loans owing by third parties.

Not all of the $1.4 billion in funding from the new agreement will be received by the Corporation. The $1.4 billion includes two components: subsidies for the operation of the various programs and amortization costs for the 9,400 portfolio previously cost-shared with CMHC. The amortization costs, totalling $588 million over the term of the Agreement will be intercepted by CMHC to pay off the debt owed to CMHC relating to the 9,400 units.

Funding decreases during the life of the Agreement result from unit phase outs and reduction of the amortization component. Unit phase out is the term used to indicate when a particular unit or units will no longer be eligible for funding by CMHC. The phase out schedule in the new agreement is in line with the unit phase outs that were already in place under the previous agreements.

Scope and Objectives

We completed our review of the Corporation's involvement under the Social Housing Agreement in November 1998. Our review included an analysis of the terms of the Agreement and the process followed by the Corporation leading to the signing of the Agreement. Our objectives were to determine:

- whether there was an adequate analysis of revenues and expenditures for each of the options available to the Corporation to determine which option was the best for the Province; and
- whether there was an adequate assessment of the risks faced by the Corporation prior to entering into the new Agreement.

Conclusions

In 1997, the Corporation entered into a new agreement with CMHC regarding funding for social housing. Under the agreement, the Corporation will receive approximately $1.4 billion over a forty-two year period commencing in 1997. Funding commences at $55.3 million in 1997-98 and reduces to $0 by the year 2039. The Corporation had two options: maintain the status quo or accept the new agreement.

The Corporation did not conduct an adequate analysis of the two options. The anticipated revenues and estimated expenditures of both options were not determined and compared to identify which option would provide the greater benefit to the Province.

The Corporation accepted the new agreement even though it had projected a deficiency in the range of $6.9 to $26.9 million in the inflation/interest rate reserve provided by CMHC under the Agreement.

Detailed Findings

The offer by the CMHC to allow the Corporation to assume total responsibility for the administration and delivery of social housing in the province represented an alternative to existing arrangements. Under existing arrangements, the Corporation administered and delivered a social housing program which was cost-shared with CMHC. In addition to this, CMHC administered and delivered its own social housing program.

Both programs involved revenues and costs from delivery. In substance, each program was expenditure driven, with projects developed and costs arising from these. Revenues incidental to the programs (rents and other amounts received from program participants) in some instances reduced the overall cost of delivery, with the net cost either cost-shared between the Corporation and CMHC in the case of the program administered by the Corporation, or subsidized entirely by CMHC.

In evaluating the offer from the Federal Government the Corporation had two alternatives as follows:

- Decline the federal offer and maintain the status quo.
- Accept the federal offer.

In choosing between these alternatives, the decision point from a financial perspective should have been the alternative which resulted in the least cost and risk to the taxpayers of the province while maintaining existing social housing levels i.e. the alternative which resulted in the lowest provincial subsidy required to deliver the program. As both alternatives involved revenues and costs from various sources, and an extended time frame, the only objective evaluation methodology which could be used to select between the alternatives would be a discounted cash-flow analysis.

Revenues and costs under both alternatives should have been evaluated and projected over the life of the federal proposal and the net provincial subsidy required under both should have been discounted back to yield a net present value as of commencement, i.e. 1 April 1997. The alternative selected should have been the one which yielded the lowest provincial subsidy requirement. Although the Corporation accepted the federal offer and is now solely responsible for the social housing programs under the agreement, such an analysis was not completed.

Research and Support for Financial Involvement

1. Evaluation of the Status Quo

The Corporation did not perform a financial analysis of maintaining the status quo because it maintained that CMHC would freeze funding under existing cost-sharing arrangements at a level equivalent to the 1995-96 social housing claim. Therefore, the Corporation felt that it was intuitive that the status quo would not provide as much benefit to the Province as the new agreement. Its position was based on the following assumptions:

- funding under the current agreements would be frozen by CMHC; and
- operating costs would remain relatively constant.

In making its assumption that CMHC would freeze funding, the Corporation recognized that this would be subject to CMHC's ability to legally do this under the existing cost-sharing agreements. Our review disclosed that the Corporation entered into the Agreement without obtaining sufficient legal advice regarding CMHC's ability to freeze funding under existing cost-sharing agreements. In addition the Agreement was not amended to address numerous concerns voiced by the Department of Justice in reply to a request made by the Corporation.

A financial analysis of the status quo option would compare anticipated revenues with estimated costs and identify any shortfall or surplus in funding. Such information should have been available before a decision was made.

2. Evaluation of the Federal Offer

While the Corporation did know the anticipated revenues to be received under the new agreement, they did not estimate the costs associated with maintaining their current portfolio and the portfolio transferred from CMHC. This lack of financial analysis is especially relevant since $49.2 million related to the 9,400 units maintained by the Corporation, while only $6.1 million related to the 4,100 units previously maintained under the CMHC portfolio. The Corporation should have estimated the costs of maintaining all of the 13,500 units and compared this to the anticipated revenues to be received from CMHC under the Agreement and identify any shortfall or surplus in funding. Under this option, the Province is solely responsible for all shortfalls.

Although the Corporation performed some procedures on the reported subsidy costs of $6.1 million, they did not inspect the units in the CMHC portfolio. Corporation officials advised that they only reviewed information provided by CMHC.

The Corporation should have compared the funding shortfall or surplus of the two options to determine which option would provide the most benefit to the Province.

Risk Assessment

There were three main risk elements faced by the Corporation in relation to:

- inflation and interest rate changes;
- costs arising from required maintenance and improvements needing to be performed; and
- the risk associated with the default of mortgagees under the CMHC portfolio.

Of these three main risk elements, only two were funded. Under the new Agreement the Corporation received a one-time allowance of $5.9 million for future increases in costs due to inflation and changes in interest rates ($3.1 million) and default of mortgagees ($2.8 million). Our review indicated the following:

- The $3.1 million represented a reserve for protection against inflation and interest rate changes. The Corporation, in its analysis, projected a required reserve in the range of $10.0 to $30.0 million. Accordingly, the deficiency accruing to the Corporation over the life of the Agreement is estimated at between $6.9 to $26.9 million. Corporation officials indicated that the $3.1 million was accepted as it was the best the Federal Government would offer.
- The $2.8 million represented a reserve for protection against mortgage default. Based on its analysis, the Corporation considered the $2.8 million mortgage insurance fund to be adequate.

- The third area addressed the needs arising in the future to replace units and for modernizations and improvements. Based on its analysis, the Corporation indicated that base year funding was deficient by $1.4 million in order to provide adequate replacement reserves/modernization and improvement provisions for the cost-shared portfolio administered previously by the Corporation. The final Agreement was signed without any provision for the $1.4 million.

  In addition, the Corporation estimated that due to the absence of provisions in past years, a lump sum of approximately $6.6 was required to catch-up for replacements and/or modernizations/improvements not performed in the past. The final Agreement was signed without any provision for the $6.6 million.

Corporation's Response

The Corporation contends that it did indeed conduct an adequate analysis of the two options, i.e. maintain the status quo or accept the new federal offer. While the auditors claim that program revenue and costs under both alternatives should have been evaluated and projected over the life of the federal proposal, the Corporation contends that this was not necessary since program revenue and costs under both alternatives would have been the same. The Corporation's methodology involved identifying the major changes that would occur over the life of the agreement and determining what effect those changes would have on the level of funding under the status quo arrangement. The resulting level of federal funding under status quo was compared to the fixed funding that would be provided under the new agreement.

The changes identified included such items as:

- *Increased rental revenues resulting from higher charges to social service recipients and changes to the rent geared to income scale.*
- *Decreased expenditures resulting from the implementation of program review initiatives, primarily in the areas of administrative costs and subsidized rental operating costs.*
- *Reductions in interest costs due to mortgage rollovers after April 1, 1996.*

Under the status quo agreements, since federal funding was calculated as a percentage of program costs, as a result of the changes noted above, federal funding would have declined. This decline would total $23.0 million over the first three years after the implementation of program review and approximately $10.0 million annually thereafter.

While these changes would result in significant decreases in federal funding under the status quo, the Corporation also recognized that other factors may contribute to an increase in federal funding. These factors included the possibility of inflation, the possibility of rising interest costs and the possibility of higher maintenance costs on aging units. The Corporation estimated that inflation and rising interest rates may result in increased federal contributions in the range of $6.7 to $26.9 million dollars over the life of the agreements, and that $1.4 million would be needed annually to fund additional maintenance costs of aging units. However, these possible increases would clearly be offset by the known decreases of $23.0 million in the first three years with decreases of approximately $10.0 million annually thereafter.

Clearly, acceptance of the new federal agreement would provide the greater benefit to the province.

3.23 Newfoundland and Labrador Housing Corporation - Sale of Linden Court Apts.

Introduction

On 10 October 1997, Newfoundland and Labrador Housing Corporation (NLHC) announced tender calls for the sale of the Linden Court Apartment Complex. Originally built in 1952 by the St. John's Housing Corporation and acquired by NLHC when the two entities amalgamated in 1981, the complex consists of two - 26 unit apartment buildings located in the residential and commercial area of Churchill Square. The sale of Linden Court was the result of the decision in the early 1990's by government for NLHC to divest of its market rentals.

On 1 December 1997, the tender closed and eight (8) bids were received. The bids ranged from $396,880 to $2,243,800. The sale of Linden Court was awarded to the highest bidder and was concluded on 19 February 1998. Shortly following the closing, the purchaser announced its intention to convert the 52 units in Linden Court into condominiums. Tenants were given until 31 March 1998 to notify the purchaser of their intentions. If they did not wish to purchase, they were given three months to find new accommodations. The tenants of Linden Court expressed concern over the announcement by the purchaser. Many of these tenants had resided in Linden Court for several years and either did not want to move or did not have the resources to finance the purchase. Public interest in the situation increased and concern was expressed over the stress and anxiety experienced by the tenants, many of whom were elderly.

In response to this situation, government announced that they would take any necessary action to assist the tenants of Linden Court. Based on discussions with the new owners and tenants, NLHC generated four possible alternatives to assist the tenants as follows:

- Offer mortgage guarantees;
- Offer an NLHC mortgage to tenants 65 years of age and older;
- Offer that NLHC purchase the unit and rent it back to the tenant; and
- Offer assistance with finding alternative living accommodations and moving expenses.

Scope and Objectives

In November 1998, we conducted a review of the sale of the Linden Court Apartment Complex. The tendering process and the events following the conclusion of the sale were examined.

Findings

Pending Court Case Initiated by The Purchaser

The purchaser made application to the Supreme Court of Newfoundland seeking a decision regarding the payment of commission fees in the amount of $51,607 on the sale of Linden Court. Even though real estate agents are now able to receive commissions when selling lands and properties of the Corporation, in the bid submitted by the purchaser, it did not stipulate that they were seeking a commission or that a commission fee was involved in the submission. According to NLHC officials, the high bid of $2,243,800 received from the purchaser was received in their own right (i.e. not on behalf of a client). At the time the bid was accepted, NLHC indicated to the purchaser that the Corporation would not be providing a real estate commission. Both sides have made offers in an attempt to settle out of court; however, a settlement has not been reached to date and legal proceedings are continuing.

Decision by The Purchaser to Convert Linden Court into Condominiums

The decision by the purchaser to convert the apartment complex into condominiums was negatively received by the tenants of Linden Court. The tenants were given first opportunity to purchase these units and had to make this decision in less than five weeks. Many of these tenants were elderly, had resided in Linden Court for several years, did not have the resources to finance the purchase or did not want to move. Since it was NLHC and government who had decided to sell the complex and made the decision to accept the purchaser's bid, the tenants and the public looked to NLHC and government for assistance. Various individuals, interest groups and the tenants exerted pressure on government to find an acceptable solution to the problems created by the sale of Linden Court. NLHC and government presented four possible alternatives to the tenants. Figure 1 shows the breakdown of the decisions by the tenants.

Figure 1

Breakdown of Decisions by Linden Court Tenants

	Number of Tenants
Tenant Moves (assistance from NLHC)	21
Tenant Purchases (no NLHC assistance)	12
NLHC Purchases for tenant rentals	10
Tenant Purchases (NLHC mortgage financing)	5
Vacant Units	4
Total	**52**

Source : Newfoundland and Labrador Housing Corporation

NLHC offered to find alternative living accommodations for tenants who wished to move. Twenty-one (21) tenants decided to move out of Linden Court and were assisted with moving expenses at an approximate total cost to NLHC of $14,000.

NLHC offered to buyback units from the purchaser for any tenants that wished to continue to rent. Ten (10) units were repurchased by NLHC at an average cost of $74,960 per unit. NLHC incurred approximately $7,000 in total for legal fees related to these transactions. When Linden Court was sold, NLHC received $43,150 per unit from the purchaser. This represents an average difference of $31,810 per unit on the price NLHC received on the sale and the price NLHC paid to the purchaser on the buyback of the ten (10) units. We were informed that part of the difference is attributed to improvements made by the purchaser. Figure 2 provides a breakdown of the annual rental revenue and associated cost for these 10 units.

Figure 2

Breakdown of Rental Revenue and Associated Costs for 10 Units in Linden Court

	Amount
Gross Revenue	96,960
Less : Rent Subsidy	(5,268)
Net Revenues Received from Tenants	91,692
Less Expenses :	
Condo Fees	(27,093)
Maintenance Fees	(3,000)
Property Taxes	(10,520)
Depreciation of Units (2% Declining balance)	(14,992)
Interest Cost (6.5%)	(48,724)
Net Annual Cost to NLHC	**$(12,637)**

NLHC offered to provide mortgage financing to any tenant 65 years or older. Five (5) tenants were issued mortgages from NLHC at an average cost of $74,700 per unit. Although each tenant paid individual legal fees, NLHC incurred approximately $4,000 in total for legal fees related to these transactions. In addition, twelve (12) tenants purchased units without any assistance from NLHC.

Finally, NLHC offered to provide mortgage guarantees; however, no tenants availed of this alternative.

Corporation's Response

We accept your report on the sale of Linden Court as is.

3.24 Newfoundland and Labrador Housing Corporation - Sale of Elizabeth Towers

Introduction

Elizabeth Towers, an eight-story structure containing both residential and commercial space, was built in 1968 by the St. John's Housing Authority. The building was assumed by Newfoundland and Labrador Housing Corporation (NLHC) in 1981 when the two agencies amalgamated. At this time, the capital cost recorded in NLHC's financial records was $5.7 million.

In 1984, Elizabeth Towers was offered for sale for the first time. Three bids were received (range of $3.1 million to $7.8 million) but all were below the then appraised value of $8.1 million. Cabinet directed NLHC to reject all bids.

In 1986, NLHC discovered major structural problems with the exterior of Elizabeth Towers. A preliminary estimate for repairs was $1 million; however, in 1987 this figure had been revised to $4.4 million for which Cabinet gave approval to NLHC to borrow. Renovations continued from 1986 to 1991. In 1990, NLHC received approval from Cabinet to borrow a further $2.9 million. Total cost of renovations since 1982 was approximately $8.2 million. Cabinet ordered an independent analysis of the renovation project and it was concluded that NLHC and the contractors underestimated the complexity of the project and the extended time frame required to complete the restoration.

In April 1993, Elizabeth Towers was offered for sale a second time. Only one bid was received which was well below the then appraised value of $9.1 million. This bid was rejected. Shortly after this, NLHC was approached by a company that had not submitted a bid but was interested in the property. NLHC and this company commenced negotiations which culminated in an offer worth $9.4 million but which also included a government guarantee. NLHC's Board of Directors approved this agreement and were prepared to bring it to Cabinet for their approval. However, at this time, Cabinet ordered a review of the tendering process used by NLHC in the sale of Churchill Square. Since the process used for Elizabeth Towers was similar, NLHC decided to postpone the sale of Elizabeth Towers.

The report by the Department of Justice was released in the summer of 1994. It concluded that NLHC did not breach any statutory provision and did not take any action that amounted to procedural unfairness, but could improve its process through a public tender call by ensuring that all bidders were treated alike and to utilize cross negotiation when negotiating with bidders outside the tender process. In light of these findings, Cabinet authorized the re-tender for the sale of Elizabeth Towers.

In November 1996, a third proposal call for Elizabeth Towers was conducted. The appraised value of Elizabeth Towers was $5.8 million at this time. NLHC received three bids which were all rejected since they failed to meet the conditions of the Instructions to Bidders. In June 1997, NLHC was authorized by Treasury Board to enter into negotiations with interested parties. In response, NLHC invited six companies (including the three who had submitted bids in 1996) to submit an offer. At this time NLHC informed the parties that they were willing to finance the purchase of Elizabeth Towers up to 90% of the purchase price. Four offers were received in August 1997. After NLHC analyzed these offers, Elizabeth Towers was sold to the highest bidder on 28 November 1997 for approximately $5.3 million.

As outlined in Figure 1, Elizabeth Towers was transferred to NLHC in 1981 at a book value of $5.7 million. Between 1981 and 1997, when the building was sold, $8.2 million had been spent on renovating the building, $4.5 million was written-off and $3.7 million was recorded as depreciation. As at November 1997 when the building was sold, the net book value of Elizabeth Towers was $5.7 million. The building was sold for approximately $5.3 million.

3.24 Newfoundland and Labrador Housing Corporation - Sale of Elizabeth Towers

Figure 1

Newfoundland and Labrador Housing Corporation
Elizabeth Towers
Cost Information
1981 to 1997

Year	Beginning Book Value	Depreciation	Renovations	Write Offs	Net Book Value
November, 1981	$5,740,000	$1,302,000	$ -	$ -	$4,438,000
1981-82	4,438,000	39,000	-	-	4,399,000
1982-83	4,399,000	88,100	418,000	-	4,728,900
1983-84	4,728,900	102,400	398,700	-	5,025,200
1984-85	5,025,200	101,800	5,000	-	4,928,400
1985-86	4,928,400	98,100	-	-	4,830,300
1986-87	4,830,300	96,600	-	-	4,733,700
1987-88	4,733,700	94,600	-	-	4,639,100
1988-89	4,639,100	92,900	2,215,000	-	6,761,200
1989-90	6,761,200	167,000	1,592,000	-	8,186,200
1990-91	8,186,200	214,800	2,871,400	-	10,842,800
1991-92	11,271,100	159,400	-	-	10,683,400
1992-93	10,683,400	278,600	584,700	-	10,989,500
1993-94	10,989,500	216,600	104,100	-	10,877,000
1994-95	10,877,000	213,500	12,400	2,675,900	8,000,000
1995-96	8,000,000	209,200	5,100	-	7,795,900
1996-97	7,795,900	153,700	-	1,842,200	5,800,000
November, 1997	5,800,000	77,333	-	-	5,722,667
TOTAL		**$3,705,633**	**$8,206,400**	**$4,518,100**	

Source: Newfoundland and Labrador Housing Corporation

Scope and Objectives

In November 1998, we completed a review of the sale of Elizabeth Towers.

Conclusion

As outlined in Figure 1, Elizabeth Towers was transferred to NLHC in 1981 at a book value of $5.7 million. Between 1981 and 1997, when the building was sold, $8.2 million had been spent on renovating the building, $4.5 million was written-off and $3.7 million was recorded as depreciation. As at November 1997 when the building was sold, the net book value of Elizabeth Towers was $5.7 million. The building was sold for approximately $5.3 million.

The sale of Elizabeth Towers and the conditions of the sale were authorized by Treasury Board. The purchaser has not yet met all the conditions of the sale.

3.24 Newfoundland and Labrador Housing Corporation - Sale of Elizabeth Towers

Findings and Recommendation

Sale of Elizabeth Towers

NLHC sold Elizabeth Towers in November 1997 for $5,259,900. NLHC received $525,990 in cash and took back a 25 year mortgage in the amount of $4,733,910 at 7.1% renewable in 5 years. This was in line with what was included on the invitation for proposals circulated to the six potential buyers. NLHC in turn obtained a 15 year loan for this amount at an interest rate of 6.31%. At this time, the appraised value was $5.8 million with a net book value of $5.7 million. As a result of the sale, NLHC recorded a loss $462,767. However, NLHC had written down the book value of Elizabeth Towers some $4.5 million since 1994.

The mortgage document signed by NLHC and the purchaser contained several conditions. This included the requirement to repair and refurbish all the balconies of Elizabeth Towers to a standard consistent with sound engineering and construction practice by 28 August 1998. Also, under the terms of the Offer to Purchase, NLHC required that the purchaser provide unaudited financial statements pertaining to the purchaser's principle shareholders and a Business Operation Plan for the operation of the property in order that NLHC could be satisfied that the purchaser had the ability to responsibly operate and to pay the amounts due on the first mortgage. At audit date, the repairs had not been made and the Business Operation Plan was still outstanding.

Recommendation

NLHC should ensure that the purchaser adheres to all the conditions of the sale of Elizabeth Towers.

Corporation's Response

The report for Elizabeth Towers recommended that "NLHC should ensure that the purchaser adheres to all the conditions of the sale of Elizabeth Towers". This recommendation is directly pertaining to the requirement that [the purchaser] repair the balconies by August 28, 1998 and provide a report from a structural engineer that verifies that the repair has been completed in a responsible manner. In addition, the proponent was required to supply a business plan which reflected their future operation plans for the property.

The principals of [the purchasing company] have [been] contacted, both by telephone and in writing, on a number of occasions since the execution of the Purchase and Sale Agreement in October, 1997, but have not fulfilled their requirements. They have informed the Corporation that the structural engineer contracted by them to review and oversee the balcony repairs was unavailable through the summer months but has now completed the review/design component of this work. They had hoped to have the repairs completed by the end of 1998, but the work is more extensive than they had originally anticipated. With regard to the supply of the business plan, it would seem that their plan has been evolving and that when they purchased the property they may not have had a structured plan at the time of purchase. In both cases, we will continue to press [the purchaser] to fulfill their contractual obligations.

3.25 The John Cabot (1997) 500th Anniversary Corporation

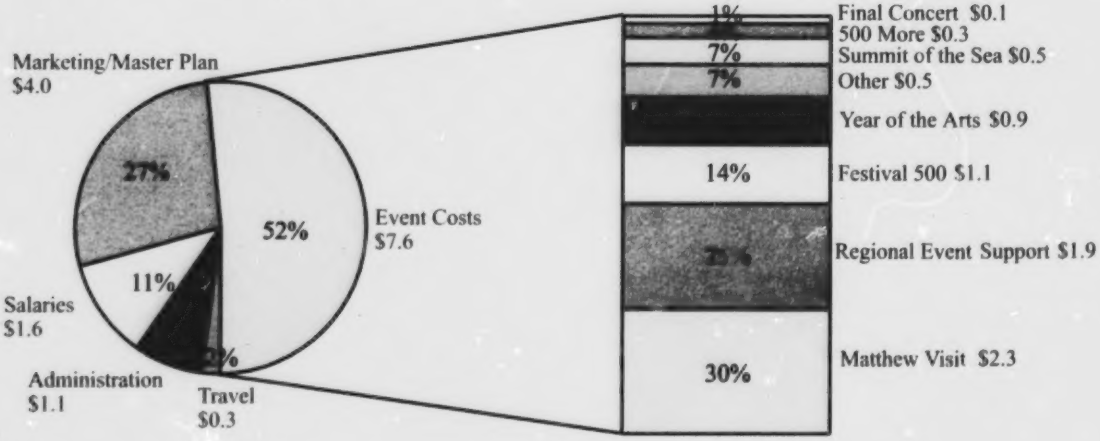
Department of Tourism, Culture and Recreation

Introduction

The John Cabot (1997) 500th Anniversary Corporation was incorporated under the *Corporations Act* on 22 May 1992. It was established for planning and organizing the celebrations to recognize the 500th anniversary of John Cabot's voyage to Newfoundland. As Figure 1 summarizes, the total expenditures of the Corporation from its incorporation in May 1992 to 31 March 1998 were approximately $14.6 million.

Figure 1

The John Cabot (1997) 500th Anniversary Corporation
Expenditures by Category
May 1992 - March 1998
($ Millions)



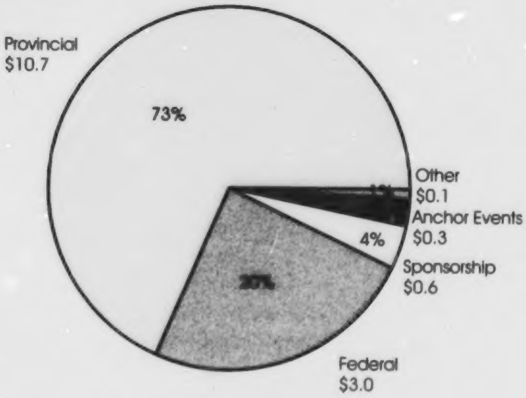
Source: Audited financial statements for the years ended 31 March 1993 through 31 March 1998.

Notes: (1) The expenditures shown above for Event Costs and Marketing/Master Plan include the costs of salaries and related travel.
(2) Administration expenditures include the costs of leasing and/or purchasing equipment.

During this period, the Corporation received funding of $14.7 million from sources as outlined in Figure 2.

Figure 2

The John Cabot (1997) 500th Anniversary Corporation
Sources of Funding
May 1992 - March 1998
($ Millions)



Source: Audited financial statements for the years ended 31 March 1993 through 31 March 1998.

In 1996, we completed our first review of the expenditures of the Corporation for the period of May 1992 to December 1995. This included a review of expenditures to 31 December 1995 which amounted to $7.0 million. A report outlining the results of this review was presented to the House of Assembly on 20 February 1997. During 1998, we reviewed the remaining expenditures of $7.6 million covering the period 1 January 1996 to 31 March 1998.

Scope and Objectives

We completed our second review of the Corporation in September 1998. The review covered the period from 1 January 1996 to 31 March 1998. The objectives were to:

- review the expenditures of the Corporation to assess compliance with relevant legislation, primarily the *Public Tender Act* and the *Guidelines Covering the Hiring of External Consultants*;
- review expenditures for adherence to applicable policies (e.g. travel rules, Government compensation policies);
- review the processes in place for the generation of revenue from sponsorships and merchandising; and
- determine if the Province and/or the Corporation has a process in place for measuring and monitoring the economic benefits generated from the Cabot celebrations relative to the funding provided.

The Matthew

Conclusion

The Corporation has significantly improved its management and financial control systems since our initial review in 1996. Of the $14.6 million spent by the Corporation to 31 March 1998, $7.0 million was audited during our first review in 1996 while the remaining $7.6 million was audited in 1998.

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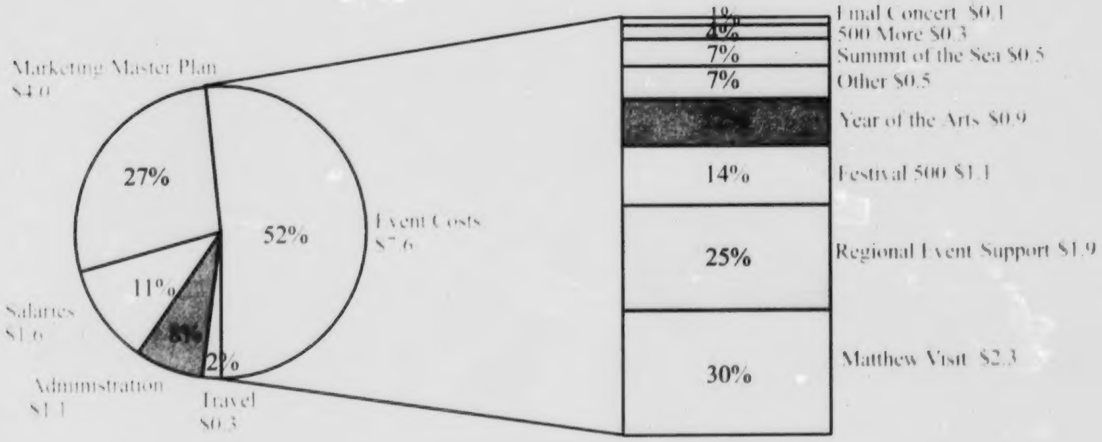
($ Millions)



Source Audited financial statements for the years ended 31 March 1993 through 31 March 1998

Notes (1) The expenditures shown above for Event Costs and Marketing Master Plan include the costs of salaries and related travel.
(2) Administration expenditures include the costs of leasing and/or purchasing equipment.

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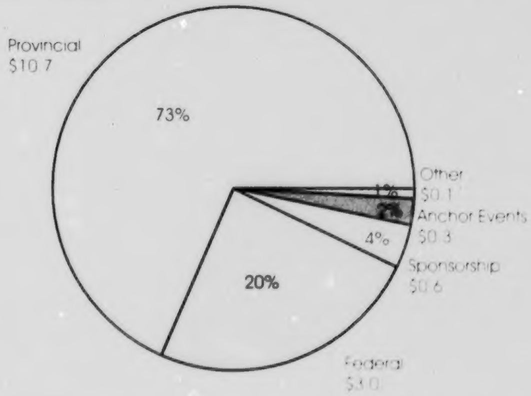

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Detailed Findings

Legislative Compliance

1. The Public Tender Act

We examined 27 purchases totalling $746,288 for compliance with the *Public Tender Act*. We noted the following during our review:

- The Corporation received advice on a continuous basis for most of the audit period from the Government Purchasing Agency, a division of the Department of Works, Services, and Transportation.

- Whenever a contract is awarded without a public tender, the *Public Tender Act* and *Regulations* require that the Corporation inform the Minister of Works, Services, and Transportation within five days of the awarding of the tender. There were five instances where the Minister was not informed within the required five day period. The Corporation indicated the purchases were not made through a public tender process because the purchases were emergency requirements or were made from sole source suppliers.

- There were three purchases totalling approximately $220,000 from sole source suppliers for which the Corporation does not intend to inform the Minister of Works, Services, and Transportation as required under the *Public Tender Act*. The purchases relate to the costs of hosting two of the Anchor Events and hotel deposits which were not recovered due to lower than anticipated registrations at one of the Anchor Events.

- There was one instance where a purchase of office stationery was made for approximately $15,000 which was not tendered as required under the Act. The explanation offered by the Corporation was that it was uncertain of the total quantity of goods that would be required and could therefore not prepare adequate tender specifications.

- We did not find any instances where the Corporation did not comply with the Act when making purchases under $7,500.

2. Guidelines Covering the Hiring of External Consultants

In October 1995, the Corporation indicated that it would follow Government's policies relating to the hiring of consultants. We examined four contracts totalling $103,465 which were subject to Government's *Guidelines Covering the Hiring of External Consultants*. The Corporation complied with the Guidelines for the contracts examined.

3. Services not Governed by the Public Tender Act or the Guidelines Covering the Hiring of External Consultants

The Corporation acquired certain services that were artistic in nature. An example of these services would include hiring musicians to perform for the Matthew Visit and the Festival 500. Under Section 2(g)(ii) of the *Public Tender Act* these services are exempt from public tender. Also, such expenditures are not covered under the *Guidelines Covering the Hiring of External Consultants* because they do not require the advice of a professional person.

We examined the acquisition of seven services totalling $436,051 that were artistic in nature. Our review indicated that the Corporation used an objective evaluation and selection process when it acquired goods and services that were artistic in nature.

Compliance with Government Policies

1. Employee Compensation and Benefits

During the period of 1 January 1996 to 31 March 1998 the Corporation had a staff complement that ranged from 10 employees to 25 employees. Also, the Corporation was assisted by employees from Government departments at no cost to the Corporation. The total expenditure on salaries and benefits during this period was $1.1 million. Many of the Corporation's employees were hired on a contractual basis.

We examined 11 of these employment contracts. Our objective was to determine if the employment contracts were in accordance with Government policies that were accepted by the Corporation.

Our review disclosed the following:

- While the Corporation had adopted a policy of using a pay scale similar to that used by Government for its employees, it did not use such pay scales. However, salaries paid by the Corporation did not appear unreasonable.
- During October 1995, the Corporation temporarily ceased operations and terminated all staff. Shortly afterwards, the Corporation resumed operations and re-hired some of its former employees. In addition, the Corporation also hired other staff from resumes which it kept on file. In most of the cases which we examined involving employees which were hired from resumes kept on file, no job competitions were held. The Corporation has indicated that vacant positions were not advertised because of time constraints.
- The Corporation paid its employees approximately $34,000 for unused vacation entitlements which existed at the end of their employment contracts. However, since the Corporation did not maintain attendance records, it was not possible to determine whether the employees had unused vacation entitlements for which the payments were made.

2. Travel and Entertainment

During the period of 1 January 1996 to 31 March 1998 the Corporation spent approximately $658,000 in travel and entertainment expenditures. We examined 20 travel claims totalling $41,822 for compliance with Government's travel guidelines, which the Corporation was instructed to follow by its Board of Directors. For the most part, the Corporation complied with the travel guidelines.

Generation of Revenue from Sponsorships and Merchandising

The Corporation received cash sponsorships of $568,000 and in-kind sponsorships of approximately $357,000. In soliciting corporate sponsors the Corporation issued press releases and approached certain corporations. Information sessions were held with sponsors and potential sponsors to outline the benefits of sponsoring the Cabot Celebrations. Also, some corporations approached the Corporation to offer to become sponsors. Once a corporation agreed to become a sponsor an agreement was signed with the Corporation outlining the obligations of each party.

The Corporation received approximately $52,000 in revenue from royalties associated with the use of its logo. Officials of the Corporation indicated that the use of its logo was primarily for promotional purposes and was not intended to generate a significant amount of revenue. The official licensed supplier of merchandise using the Corporation's logo was selected as a result of a request for proposals. Smaller companies and individuals were permitted to use the logo for a nominal charge. Non-commercial users, such as town councils, were permitted to use the logo without charge.

Measurement and Monitoring Economic Benefits

One of the anticipated benefits associated with the Cabot celebration was that it would provide the Province with the opportunity to showcase its tourism potential, resulting in increased revenue from tourism activities during 1997 and in future years. Therefore, it would be important for the Province to measure and monitor the effects of its investment in the tourism sector, particularly in light of other upcoming tourism themes, such as the 50th Anniversary of Newfoundland joining Confederation and the Viking Millennium.

Our review indicated that the Department of Tourism, Culture and Recreation accumulates and performs analyses on a variety of statistics from the tourism sector on a regular basis to determine the impact of tourism activities on the Provincial economy. The Department expanded its work in this area so that it could more accurately determine the impact of the Cabot celebration on the Provincial economy. The Department has indicated that it intends to use the knowledge gained from the Cabot celebration to plan for future celebrations.

Corporation's Response

I believe this to be a balanced report on our activities since 31 December 1995 in delivering a very significant event in Newfoundland's history, the 500th Anniversary of John Cabot's voyage to Newfoundland. I would like to personally thank you for the conclusion that the Corporation has significantly improved its management and financial control systems since your initial review in 1996. All staff involved since 1995 are to be credited for their efforts in this area. This is especially relevant given the nature of the events and the difficulty in implementing such a program in the environment in which we operate.

1. Office Stationary

While not publicly tendered, three quotes were obtained and this contract was awarded to the lowest bidder.

2. Public Tender Act reporting requirements of five days

Once this omission came to our attention the Form B's were immediately filed.

3. Sole Source Purchases

The sole source purchases were initiated by the previous Corporation and our legal counsel's position is that the Corporation, up to the period covered by this audit, was not required to report.

4. No Job Competitions

The nature of the festivals and events and the time available prohibited the Corporation from engaging in job competitions. The Corporation believes it used reasonable judgement in exercising its responsibility by using qualified applicants on file with the Corporation.

5. Unused Vacation

Unfortunately the Corporation did not comply with the attendance reporting process normally performed in Government departments. The Corporation exercised reasonable judgement in the payment for unused vacation given the large volume of overtime and irregular working hours which were not otherwise compensated.

3.26 Agency of Record

Introduction

In October 1993, the Department of Tourism, Culture and Recreation contracted an agency of record to serve as the sole advertising agency for tourism promotion in the Province. The agency of record was to provide advertising, marketing and research services, and print and electronic production capabilities to the Minister to promote Newfoundland and Labrador as a tourism destination.

The total amount paid to the agency of record under the terms of the contract and related extensions, to 31 March 1998, is presented in Figure 1.

Figure 1

Total Fees Paid to Agency of Record
Department of Tourism, Culture and Recreation

Period	Amount $
1 April 1993 - 31 March 1994	675,690
1 April 1994 - 31 March 1995	2,558,659
1 April 1995 - 31 March 1996	1,973,290
1 April 1996 - 31 March 1997	3,113,115
1 April 1997 - 31 March 1998	2,328,515
1 April 1998 - 30 September 1998	1,208,971
Total	**11,858,240**

Source: Government's Financial Management Information System

Scope and Objectives

Our review of the contract terms between the agency of record and the Department of Tourism, Culture and Recreation was completed in October 1998. The objectives of our review were to determine how the agency of record was selected and whether formal agency review and performance appraisals were completed.

Conclusions

The Department did not follow the spirit and intent of Government's public proposal call process when it extended contracts for periods beyond those outlined in the original agreement with the advertising consultant. Although the original contract provided for an extension to 30 September 1996, the Department continued to extend the contract up to October 1998.

Although there was a requirement to perform a review and performance appraisal before extending the contract, the Department completed its only review and performance appraisal of the agency of record in June 1995. There was no review and appraisal of the agency of record for the two contract extensions covering the period 5 June 1997 to 31 October 1998.

The Department paid on average, $2.3 million annually, to the agency of record over the past five years on advertising. It concerns me that a two year contract, worth on average $2.3 million annually, with a one year extension, remained in place for an additional two years.

Findings and Recommendations

Selection of the Agency of Record

In 1993, in accordance with Government's policy under the *Guidelines Covering the Hiring of External Consultants*, the Department of Tourism, Culture and Recreation conducted a public proposal call for the provision of tourism advertising and marketing services to the Department. Proposals were received from four agencies. A review committee, consisting of six departmental officials, reviewed the proposals based on established criteria. On an individual basis, the members of the committee prepared an evaluation of each proposal and forwarded these evaluations to the Minister of Tourism, Culture and Recreation. The Minister then prepared a submission to Cabinet containing a final recommendation on awarding the contract.

3.26 Agency of Record

In September 1993, the Lieutenant-Governor in Council approved the selection of the agency of record recommended by the Minister. A contract was signed on 4 October 1993, covering the period from 1 October 1993 to 30 September 1995, with a one year extension to be awarded upon successful completion of an agency review and performance appraisal. No other extension provisions were included in the contract.

The contract has been extended a total of four times and expired on 31 October 1998. There were no further public calls for proposals completed until July 1998. The first extension was provided for under the contract; however, the other three extensions were not.

Each of the contract extensions was supported by an extension agreement between the agency of record and the Department. Figure 2 shows the date of the original contract, the effective dates of the contract extensions, the dates approved by Cabinet, the dates each contract extension was signed, whether the extension was provided for under the original contract, and whether a performance review and appraisal was completed.

Figure 2

Contract Extensions
Effective Dates and Dates Signed

Extension Number	Effective Dates	Date Approved by Cabinet	Date Signed	Provided for Under Original Contract	Performance appraisal completed
Original Contract	1 October 1993 - 30 September 1995	16 September 1993	4 October 1993	N/A	N/A
1.	1 October 1995 - 30 September 1996	23 November 1995	21 December 1995	Yes	Yes
2.	1 October 1996 - 4 June 1997	23 November 1995	21 December 1995	No	Yes
3.	5 June 1997 - 4 June 1998	16 July 1997	24 September 1997	No	No
4.	5 June 1998 - 31 October 1998	16 July 1998	30 July 1998	No	No

3.26 Agency of Record

Public proposals for advertising services for the Department of Tourism, Culture and Recreation were invited in April 1997; however, the invitation was terminated because Government decided to initiate a review of the manner in which its advertising agency requirements were being met. The result of the review was the development of a Government wide framework for future advertising and promotional contracts, which was approved by Cabinet in May 1998.

Under the framework, contracts valued at greater than $50,000, requires that a request for proposals be prepared by a department and reviewed by a Cabinet Committee on Communications, with input from an Officials Committee comprised of senior government officials. The assessment of received proposals is to be undertaken by the Officials Committee in consultation with the sponsoring department. Decisions on the award of the contract will be made by the Cabinet Communications Committee, with contracts valued at $250,000 or more to be forwarded to Cabinet.

In July 1998, the Department commenced the process of calling for proposals for advertising services. This call for proposals was made under the new framework and, in October 1998, Cabinet authorized the award of the agency of record contract resulting from this proposal call; however, at the time of our review, the contract had not been signed.

Agency Review and Performance Appraisals

Under the original 1993 contract, the agreement terminated on 30 September 1995, but could be extended for a period of one year to 30 September 1996, *"...upon successful completion to the Minister of an agency review and performance appraisal."* An agency review and performance appraisal was completed prior to the first extension, with the same review and appraisal being used as a basis for extending the contract a further nine months to 4 June 1997. There were no formal agency review and performance appraisals completed for the remaining two extensions.

Recommendation

The Department should follow the spirit and intent of Government's public proposal call process and not renew contracts for periods beyond those outlined in the original agreements.

Department's Response

The Department agrees that the spirit and intent of Government's proposal call process should be implemented. Cabinet has the authority under the Guidelines to approve professional services contracts, and this authority was obtained in the instances noted in the report.

The other point to note is that the last two extensions were unanticipated, the first to perform a Government wide review of its requirements in this area, and the second to accommodate the new proposal call.

3.26 Agency of Record

CHAPTER
4
UPDATE ON PRIOR YEARS' REPORT ITEMS

CHAPTER

4

Update on Prior Years' Report Items

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4.1 Introduction

We conduct legislative audits to provide the House of Assembly with information on public sector accountability. Legislative audits are carried out to determine whether:

- public money is being properly collected and accounted for;
- expenditures are properly recorded and made for the purpose intended;
- accounts are properly kept;
- assets are adequately safeguarded; and
- accounting and management systems and practices are adequate.

These legislative audits also determine whether the activities of Government departments and agencies have been carried out in compliance with legislation, government policies and other authorities.

Monitoring the implementation of our recommendations is an important part of our obligation to report to the House of Assembly. Our objective is to monitor and report the degree to which positive change has occurred as a result of the implementation of recommendations in our prior years' reports.

In 1996, we commenced a formal process of monitoring and updating the comments and recommendations included in our previous Annual Report to the House of Assembly. It is our intention to monitor and update the recommendations in each Annual Report two years after it has been issued. Monitoring will continue until we are reasonably satisfied that issues are being adequately addressed or are no longer valid.

This chapter includes the results of these monitoring activities on our 1994, 1995 and 1996 Annual Reports.

Department of Finance

4.2.1 Foreign Currency Debt (1994 Annual Report, Part 4.2)

Introduction

The Department of Finance is responsible for the long-term debt of the Province, including foreign currency debentures and other debt. During 1994 we performed a review of the Province's foreign currency debenture and other debt to determine the effect of currency exchange fluctuations on the cost of servicing this debt. As at 31 March 1994, total debenture and other debt outstanding, as disclosed in the Consolidated Revenue Fund financial statements, was $5.400 billion, of which $2.684 billion or 49.7% was repayable in foreign currencies. As at 31 March 1998, total debenture and other debt outstanding was $5.018 billion, of which $2.279 billion or 45.4% was repayable in foreign currencies. In our 1994 report we concluded that:

- the Province has a significant exposure to foreign exchange fluctuations attributable to changes in the value of the Canadian dollar; and
- foreign exchange fluctuations have had a significant impact on the cost of servicing the Province's foreign debt.

We recommended that the Department of Finance develop formal objectives and policies relative to its borrowing program which address the risks associated with the fluctuations in foreign currencies.

In our 1996 Annual Report, we updated our comments on the Department's action in response to our 1994 comments and recommendations. We reported that the Department had made no formal progress on the 1994 recommendations. We were informed by the Department that it was working on a risk management strategy for exchange rates. As this strategy was in the early stages of development, it was too early to assess the impact of this development.

In 1997, we were informed by the Department of Finance that it was continuing to work on a risk management strategy for exchange rates and interest rates. This work was expected to be completed during the 1997-98 fiscal year.

Update

We have been informed by the Department of Finance that it continues to work on the development of a liability management strategy with a view to reducing the Province's exposure to foreign currency and interest rate fluctuations. The development of this strategy continues to be a priority of the Department, as noted in its Departmental Plan.

4.2.2 Sinking Funds (1994 Annual Report, Part 4.3)

Introduction

The Province of Newfoundland borrows money by issuing debentures, many of which have sinking fund requirements. As well, the Province voluntarily maintains sinking funds for Canada Pension Plan (CPP) and other debentures. Sinking funds are a pool of cash and investments accumulated during the life of the debentures to repay the debt at maturity. The sinking funds of the Province are in one fund known as the Newfoundland Government Sinking Fund and the fund is administered by the Board of Trustees of the Newfoundland Consolidated Sinking Funds.

In 1994, we conducted a review which provided for an examination of the legislation and certain policies and procedures respecting sinking fund debentures and the fund. We made specific recommendations relating to legislation, contribution rates, sinking fund objectives and investment policies. Our review indicated that:

- policies and objectives respecting sinking funds should be reviewed by the Department of Finance to determine whether they are appropriate in relation to the Province's overall financial objectives; and
- an analysis of the costs and benefits of the Province maintaining surplus and voluntary sinking funds is needed to determine whether optimal use is being made of limited cash resources.

Update

As reported in our update contained in our 1997 Annual Report, the Department of Finance has taken action with respect to some of our recommendations; however, the action taken did not address all our concerns.

Recommendations for which little or no action has been taken are outlined below.

Contribution Rates

Our recommendation relating to contribution rates was that the Province should review the practice of maintaining voluntary sinking funds for Canada Pension Plan and other debentures, in light of its current borrowing requirements. Any decisions made in this regard should be based on a cost benefit analysis. The Department had indicated in previous years that it would conduct a review of its current practice of maintaining voluntary sinking funds. This year, the Department has indicated that it will continue the practice of maintaining voluntary sinking funds as it provides an orderly redemption schedule for CPP borrowings and certain other debentures.

Investment Policies

Two recommendations resulted from our review of investment policies. These are as follows:

- Our first recommendation was that the rationale underlying chosen investment policies and practices of the fund should be regularly reviewed, and alternatives regularly considered and evaluated in terms of costs and benefits. The Department previously advised that it had been some time since a formal overall analysis of investment policies had been completed and such a study would be undertaken as soon as possible. Currently, the Department advised that a formal review of sinking fund investment policies remains an objective of the Department, though to date this has not commenced.

- Our second recommendation was that the possibility of cancelling Province of Newfoundland debentures held in the sinking funds should be explored. We recommended that any decisions made in this regard should also be based on a cost benefit analysis. In response to this recommendation, we were advised in the current year that the Board of Trustees continues to contend that interest earnings on the securities held are key to the concept of growing the funds in order to fully redeem the principal of issues held therein.

This is the third year we have provided an update related to our 1994 review of the legislation and certain policies and procedures respecting sinking fund debentures and the fund. The Department's response indicates further progress in implementing our recommendations is improbable. Consequently, we will cease monitoring of this matter.

4.2.3 Cash Management Program (1994 Annual Report, Part 4.4)

Introduction

During 1994 we carried out a review of the Province's cash management program which managed approximately $8.9 billion flowing through the Consolidated Revenue Fund. Responsibility for the cash management program is shared by the Treasury Board Secretariat, the Department of Finance and, to some degree, Government departments. In our 1994 report we concluded that:

- Government's cash management program is not being adequately coordinated or controlled.

- Formal objectives and performance indicators have not been established, and, as a result, the cash management program is not being adequately monitored and evaluated.

- Departments have not been informed of Government's cash management policies and procedures. Cash related activities of Government departments, such as collections and payments, have not been coordinated with Government's cash management policies and procedures.

In response to our 1994 report, the Department of Finance disagreed with our conclusion that Government's cash management program is not being adequately coordinated or controlled and that the cash management program is not being adequately monitored and evaluated.

In our 1996 Annual Report, we updated our comments on actions taken by the Treasury Board Secretariat and the Department of Finance in response to our 1994 comments and recommendations. We reported that the Secretariat and the Department had begun to address the Province's cash management program. A Treasury Management Committee was created in 1995 and was expected to address our concerns by developing a treasury management strategy for Government.

In 1997 we reported that the Department of Finance indicated that the Treasury Management Committee has made progress towards the development of a formalized treasury management program. Treasury Board Secretariat indicated that the Treasury Management Committee was analysing and evaluating several cash management issues. The Committee will also be considering the opportunities available with the purchase of a new software package for Government.

Update

The Department of Finance indicated that there is no significant change to report with regard to the cash management program for 1997-98. It anticipates that Government's new ORACLE based financial management and accounting system, currently being developed by Executive Council, will allow for improvements in this area. The Department indicated that assessment of this system's capabilities, once operating, will assist in the development of a formal treasury management program.

Treasury Board Secretariat agreed that there is a need to make improvements in Government's overall cash management system, and indicated that steps are being taken to meet these objectives. Treasury Board Secretariat indicated that the introduction of the new financial management system will provide additional cash management information on a more timely basis to the Department of Finance. In addition, a formal reorganizational review has been undertaken in the Debt Management Division of the Department of Finance and specialized training is being developed for its senior staff.

4.2.4 Current Account Revenues (1994 Annual Report, Part 4.6)

Introduction

The Province, for the year ended 31 March 1998, earned approximately $1.4 billion in provincial taxes, representing 40% of total revenues. The Tax Administration Branch of the Department of Finance is responsible for the administration of all provincial taxes, except Personal Income Taxes, Corporate Income Taxes and Harmonized Sales Taxes of approximately $970 million, which are administered by the Fiscal Policy Division. In 1994, we performed a review of the Tax Administration Branch [illegible] assess the various aspects of general management practices and to determine whether adequate management systems were in place to ensure that audit and collection activities related to retail sales tax were carried out in accordance with established objectives and relevant legislation and guidelines. We concluded that most aspects of the Branch's management practices and audit and collection activities were not adequate and should be improved.

Since our 1994 review, the Federal and Provincial Governments have agreed to harmonize sales tax. As a result of the allocation of Branch resources to tax harmonization negotiations and the uncertainty associated with the anticipated changes, little progress has been made in implementing our 1994 recommendations.

Update

During November 1998, we asked the Department of Finance to inform us as to the progress on our 1994 recommendations. The Department indicated that, for the most part, the progress has not changed from 1997.

Management Practices

1994 Recommendations

A strategic planning process should be initiated.

The Department should conduct formal performance evaluations on a regular basis. Staff should be involved in the determination of individual performance objectives and the means by which their performance will be measured.

The Department should develop clear policies to provide guidance to managers in responding to staff performance

Action Taken

The Department indicated that as part of Government's general initiative to introduce strategic and operational planning, it is currently engaged in training seminars conducted by the Training and Communications Division of Treasury Board to educate all management staff in the development of formal Strategic and Operational

Plans. A preliminary high level strategic plan was developed for the Department for 1998/1999 and it is anticipated that this will be revisited and refined commencing during the 1999/2000 fiscal year.

1994 Recommendation

The Department should develop and implement a training needs assessment program and the resulting training plan.

Action Taken

The Department indicated that as part of efforts towards a more efficient public service, it has developed an Organizational Development Initiative to develop better management skills, identify training needs and permit greater awareness of the issues of the Department and Government. This plan has been accepted by Government and is the basis for training and development which is currently being undertaken by the Department.

Audit and Collection Activities

1994 Recommendations

Accounts should not be classified as doubtful until they meet the criteria defined in policy.

All accounts considered doubtful of collection should be reviewed on a regular basis to determine any change in collectibility status.

Action Taken

The Department indicated that it has taken steps to ensure that accounts classified as doubtful meet the criteria defined in policy and are reviewed on a regular basis and reclassified where required.

1994 Recommendation

For those accounts where delinquency persists and collection efforts are unsuccessful, appropriate and timely action should be taken.

Action Taken

The Department indicated that it will be making a concerted effort to explore every available method of clearing all outstanding balances in a manner that will ensure the most efficient use of its resources.

1994 Recommendation

Procedures regarding the issuing of clearance certificates should be expanded to include management reviews of the seller status to determine whether an audit should be performed before the certificate is granted.

Action Taken

The Department indicated that, due to the volume of clearance certificate requests received, an audit of each of these accounts on a timely basis is not possible and, consequently, "qualified" certificates are issued subject to audit. The Department indicated that all requests are reviewed to ensure there is no outstanding account balance and to determine whether the circumstances warrant an immediate audit.

4.2.5 Credit Union Deposit Guarantee Corporation (1995 Annual Report, Part 3.12)

Introduction

Credit unions are registered under and governed by the *Co-operative Societies Act* and its related Regulations. The Act provides for the appointment of a Registrar of Credit Unions (the Registrar) and the establishment of the Credit Union Deposit Guarantee Corporation (the Corporation). The Registrar is appointed by the Lieutenant-Governor in Council while the Corporation's six member Board is appointed by the Minister of Finance with the Registrar serving as chairperson.

As of 31 December 1997, the Provincial credit union system consisted of 16 credit unions with a total membership of approximately 33,900. The credit union system had approximately $296 million in total assets, of which $245 million, or 83%, were loans receivable. The system reported a liability for member deposits of $283 million with an additional $7.6 million in total equity. Total equity was comprised of approximately $5.4 million in share equity and $2.1 million in retained earnings.

In 1995, we made observations and recommendations concerning the Corporation's accountability framework, the adequacy of systems and procedures to monitor the activities of credit unions, and compliance with the *Cooperative Societies Act* and Regulations.

Update

The Corporation has acted upon many of our recommendations, while the remaining recommendations will be addressed when the proposed *Credit Union Act* is proclaimed. Credit unions still do not always adhere to the Act and Regulations; however, the Corporation and Registrar are aware of all non-compliances through their monitoring and examination activities and corrective actions are taken where necessary.

4.2.6 Newfoundland Municipal Financing Corporation (1995 Annual Report, Part 3.13)

Introduction

The Newfoundland Municipal Financing Corporation is a Crown agency established under the authority of the *Municipal Financing Corporation Act*. The Corporation provides longterm financing for the capital requirements of municipalities. The Corporation raises funds to refinance municipal loans by the issuance of debentures in the bond market. In 1995, we performed a review of the Corporation to assess whether management practices were adequate to provide information to management and the Board of Directors for decision making and control of the operations of the Corporation and to assess the impact of the municipal debt on the Corporation and the Province. In our 1995 report we concluded that:

- There is inadequate information on the financial position of the Corporation. Without additional borrowing and lending the Corporation will have a cash deficiency of $39 million by 31 March 2013.
- Cash flow forecasting is inaccurate since the forecasts assume all payments will be received as scheduled. At 31 March 1995 the Corporation had $10.9 million in loan instalments due and unpaid.
- Given the financial position of many of the municipalities it is unrealistic to assume these entities will be able to service a $55 million annual borrowing program, as the Corporation forecasts, and also eliminate the arrears problem.
- The increasing municipal debt is having a significant impact on the Corporation. An increase of 670% in the last seven years in loan arrears is creating cash flow problems for the Corporation. In addition, action to reduce this amount has not been successful since additional loans are being made to municipalities that are in arrears and not all municipalities are adhering to agreements to liquidate their arrears.
- The Corporation does not maintain adequate information on how municipal debt will affect the Province's financial position. Our review disclosed that the Province makes approximately 65.3% of the loan payments to the Corporation.

In 1997, we updated our comments of the Corporation's action in response to our 1995 comments and recommendations. We reported that the cash position of the Corporation had improved due to municipalities refinancing loans with the banks and the Province advanced $9 million to mitigate arrears with respect to municipal loans. In addition, the Corporation was expecting to implement a new loans administration system by January 1998. However, the Corporation had still not addressed the problem of delinquent accounts, the validity of certain cash flow assumptions was questionable and the Corporation's loan system still did not provide information on loan amounts paid by the Province and municipalities.

Update

Although the Corporation has addressed some of the findings and recommendations made in our 1995 Annual Report, all issues have not been resolved as outlined below.

Financial Position

Although its cash position has improved since our 1995 review, the Corporation has still not addressed the problem of delinquent accounts. Since 1995 approximately $10.2 million in loan arrears have been refinanced for 70 municipalities. As at 31 August 1998, 46 of these loans were in arrears again, 15 had been refinanced with chartered banks and only 9 loans had no arrears. The Province has provided the Corporation with a $12 million Reserve Fund to lessen the impact of the arrears and reduce the number and value of delinquent accounts. Figure 1 shows the financial position of the Corporation as at 31 March 1998 with comparative information as at 31 March 1997.

Figure 1

Newfoundland Municipal Financing Corporation
Financial Position
31 March
($ 000's)

	1998	1997
Assets		
Cash	$ 15,798	$ 63,768
Loan instalments due and unpaid	9,194	5,492
Accrued interest receivable	11,255	12,287
Other investments	10,957	-
Loans receivable	343,941	386,655
Deferred charges	1,607	2,121
	$392,752	$ 470,323
Liabilities and Deficit		
Accounts payable	$ 84	$ 48
Accrued interest	13,907	16,023
Debenture debt	365,239	442,541
Deferred revenue	6,041	4,511
Reserve fund	11,304	9,000
Deficit	(3,823)	(1,800)
	$392,752	$470,323

Source: Audited Financial Statements

Cash Flow Forecasts

The Corporation's last cash flow forecast was prepared in April 1997. This forecast projected a cash surplus of $13 million by the year 2013 when all current loans receivable are collected and all debentures are repaid. This forecast assumed an annual borrowing and lending program of $20 million; however, in 1996-97 and 1997-98, the Corporation lent $12.6 million and $14.4 million, respectively, while not borrowing any funds. The Corporation is expected to refinance $55 million in municipal loans in 1998-99. No new forecasts have been prepared to reflect these changes.

Impact of Municipal Debt

The Corporation's accounting system still does not provide information on loan amounts paid by the Province and municipalities. Information received from the Department of Municipal and Provincial Affairs disclosed that in 1997-98 the Corporation received $86.7 million in principal and interest payments related to regular municipal debt repayments and $12.9 million from the chartered banks as a result of refinancing. The Province paid $67.2 million (77%) of the $86.7 million while municipalities contributed $19.5 million (23%). The Province's portion has increased over the 1995 report when it contributed 65% of the total. This increase can partly be explained by the refinancing of the municipal portion of loans with the chartered banks.

The Corporation's new loan system is scheduled to be operational 1 January 1999. This new system will provide information on loan amounts paid by the Province and municipalities.

4.2.7 Current Account Revenues (1995 Annual Report, Part 3.14)

Introduction

In 1994, we conducted a review of the audit and collection activities for retail sales tax at the Department of Finance. In 1995, we extended our review of retail sales tax collection activities and also conducted an additional review of the audit and collection activities for gasoline, tobacco and payroll taxes.

Government's cash source provided by these taxes has increased from a total of approximately $487 million in 1986 to $827 million in 1997. In 1998, the cash provided from these taxes was $358 million. The decline is attributed to the harmonization of the provincial retail sales tax with the federal Goods and Services Tax. During 1998, the cash provided to the Government by the Harmonized Sales Tax was $348 million.

In 1995, we concluded the following with respect to the Department's audit and investigation systems and practices:

- efforts to identify unregistered businesses for retail sales tax and payroll tax were inadequate;
- there was no regular review or monitoring of taxpayer's information returns for gasoline, tobacco or payroll taxes to ensure they were complete, accurate and filed by the required deadlines;
- management information systems were inadequate, resulting in a lack of readily available information on which to base the selection of registrants for audit, or to identify those taxpayers who were not complying with tax legislation;
- there was no systematic process for the selection of tax audits for gasoline, tobacco or payroll taxes;
- audit coverage for gasoline, tobacco and payroll taxes was low which impeded the enforcement of tax legislation; and
- once audits were selected, they were not adequately planned nor conducted in a consistent manner.

With respect to the Department's tax collection systems and practices we concluded that:

- collection policies for retail sales tax and payroll tax needed to be clarified and more rigorously enforced;
- the Department did not always comply with collection policies relating to the suspension and termination of licences and the placing of delinquent taxpayers on Government's payment interception list;
- there was inadequate supervision of collection activities for retail sales tax and payroll tax;

- the Department had not established any program objectives or performance indicators, and there was no operational planning performed to ensure that adequate tax enforcement and collection activities were planned; and
- the Department was not providing the House of Assembly with information that is required to hold the Department accountable for its use of public resources in conducting tax audit and collection activities.

During 1997, we asked the Department of Finance to inform us as to the progress made on our 1995 recommendations. We noted that the Department has taken action on some of our recommendations; however, many still need to be addressed.

Update

During November 1998, we asked the Department of Finance to inform us as to the progress on our 1995 recommendations. The Department indicated that, for the most part, the progress has not changed from 1997.

Audit and Investigation Systems and Practices

1995 Recommendation

The Department should increase efforts to effectively monitor taxpayer's information returns to ensure they are complete, accurate and filed by the required deadlines.

Action Taken

The Department indicated that this issue will be addressed during the receivable analysis presently ongoing for the Tax Administration Branch, as part of the review of the ORACLE based accounting system being performed by the Government Accounting Division of the Treasury Board Secretariat.

1995 Recommendation

The Department should ensure that tax management information systems maintain accurate and appropriate information to assist in targeting and selecting audits. This type of information would include a history of registrant activity, audit dates and the results of these audits. This information would be more useful if available by categories including industry sector, business size and registrant location.

Action Taken

The Department indicated that the tax administration systems are to be replaced in the 1999-2000 fiscal year. Alternate priorization models are being considered in conjunction with this replacement process.

1995 Recommendations

The Department should perform advisory visits for all new registrants and increase audit coverage of gasoline, tobacco and payroll tax to improve enforcement of tax legislation.

Action Taken

The Department indicated that it has several initiatives that will increase audit coverage including a cooperation agreement with the Federal Government covering tax evasion, tax avoidance and the underground economy. As previously reported, under this agreement the Department is able to share information about taxpayers. This agreement enables the Department to more efficiently audit taxpayers and increases the likelihood of identifying unregistered businesses. In addition, the Department regularly requests from the Federal Government a listing of all companies with companies that equal or exceed $100,000. This increases the likelihood that payroll tax non-registrants will be identified.

The Department also indicated that as the wind down of RST auditing and collection procedures progresses, more emphasis will be placed on increasing audit coverage of other taxes.

Tax Collection Systems and Practices

1995 Recommendation

The Department should ensure that all delinquent accounts are placed on Government's intercept listing.

Action Taken

The Department indicated that it has implemented a manual procedure to effect improvements in this area; however, if the entire tax base was added to the intercept listings it would adversely impair the current system. The necessary resources have not been available to implement a request made to the Government Accounting Division to develop and implement an automated process to ensure that all taxpayers in arrears are added to the intercept listing.

1995 Recommendation

The Department should periodically review the status of doubtful accounts with a view of obtaining a more timely approval for remission or write-off of those accounts deemed uncollectible.

Action Taken

The Department agrees that the collectible amounts should be written-off on a timely basis and it is presently reviewing its doubtful accounts for recommendation to Treasury Board for write-off.

1995 Recommendation

The Department should take appropriate action to correct the weaknesses identified in the management information systems.

Action Taken

The Department indicated that the Government Accounting Division of Treasury Board Secretariat is presently developing a Government wide ORACLE based accounting system. As part of this process, Government Accounting is reviewing the various Tax Administration accounts receivable packages for purposes of bringing them into ORACLE, or developing a new system to allow interface with ORACLE. Although the Department believes its present reports provide the information necessary to monitor the collection process, it intends to discuss our concerns with the Government Accounting Division as ORACLE is an initiative with Government-wide implications.

Planning and Reporting

1995 Recommendation

The Department should determine objectives for the various tax programs, establish performance indicators against which these objectives can be measured and implement operational plans to attain these objectives.

Action Taken

The Department indicated that, during its present transitory phase, it is focused on the wind down of the Retail Sales Tax through auditing and collection procedures. The Department is revising its review of the implementation of a strategic and operational plan in light of a new role resulting from harmonization and the significant effect this will have on its auditing and collection efforts.

The Department indicated that as part of Government's general initiative to introduce strategic and operational planning, it is currently engaged in training seminars conducted by the Training and Communications Division of Treasury Board to educate all management staff in the development of formal Strategic and Operational Plans. A preliminary high level strategic plan was developed for the Department for 1998/1999 and it is anticipated that this will be revisited and refined commencing during the 1999/2000 fiscal year.

1995 Recommendation

The Department should prepare an annual report which contains relevant, reliable and timely information to assist the Legislature in holding the Department accountable for its use of public resources.

Action Taken

The Department indicated that the preparation of an annual report will be considered in conjunction with a strategic and operational plan.

4.2.8 Teachers' Ancillary Pension Plan (1996 Annual Report, Part 3.15)

Introduction

The Teachers' Ancillary Pension Plan (TAPP) was established in 1988 as a result of the Collective Bargaining Agreement between the Province and the Newfoundland and Labrador Teachers' Association (NLTA). This plan was designed to provide for the payment of pension benefits under a special early retirement provision of the Collective Agreement.

During 1994, a provision was added to the Collective Agreement between the NLTA and the Province which provided that if the TAPP ran out of money, an amount sufficient to offset the shortfall will be loaned from the fund established for the Teachers' Pension Plan (TPP). However, section 47(7) of the *Teachers' Pensions Act* required, at the time, that benefits payable under the TAPP should only be paid to the extent that funds were available in the TAPP to pay for those benefits. As a result, the provisions of the Collective Agreement conflicted with the *Teachers' Pensions Act*.

In our 1996 Annual Report, we indicated that the TAPP had been exhausted of funds in September of 1996 and that the Department was continuing to pay pensions out of this plan from the Newfoundland Pooled Pension Fund and that these payments were in contravention with Section 47(7) of the *Teachers' Pension Act*. We recommended that Government should develop a plan to address the unfunded liabilities of the public sector pension plans, comply with then section 47(7) of the *Teachers' Pension Act* and resolve the conflict between the *Teachers' Pension Act* and the Teachers' Collective Agreement.

Update

The Department indicated that it has combined the TAPP with the TPP after recent negotiations with the NLTA and that legislation is currently being drafted to enact changes to the TPP in order to accommodate the TAPP. The Department has also advised that planned changes to the TPP, which includes an increase in contributions, reductions in plan benefits, and special payments into the plan by the Province will extend the life of the plan to 2016. The Department expects the legislation to be tabled during the Fall 1998 sitting of the House of Assembly.

At the time of our report, draft legislation proposing amendments to the TPP was not available for our review. We plan to cease monitoring this item provided suitable legislation is enacted that addresses out concerns.

Department of Government Services and Lands

4.2.9 Pension Plans (1994 Annual Report, Part 4.5)

Introduction

In 1994, we conducted an examination and assessment of Government's compliance with the provisions of the Pension Benefits Act and Regulations relating to all registered pension plans in the Province. That review indicated that:

- Government had not complied with certain sections of the Pension Benefits Act relating to pension plans generally in the Province. Specifically, the Superintendent of Pensions, appointed by the Government, had not completed reviews of pension plans to determine compliance with the Pension Benefits Act and Regulations. Also, the Superintendent had not reported to the Minister of Finance on the affairs of the Office and, as a result, the Minister had not tabled the report in the House of Assembly as required by the Act.

- Government had not developed a plan to address its unfunded pension liability.

Update

Superintendent of Pensions

As reported in the update included in our 1997 Annual Report, the recommendations resulting from our review of the Superintendent of Pensions were not completely addressed.

- Our first recommendation was that Government should appoint a Superintendent of Pensions who is independent of Government. In response, the Department of Finance advised that, in its view, there was sufficient independence within the Act to warrant that the Superintendent can be an officer of the Department of Finance and should remain an employee of Government. Since that time the responsibilities of the Office of the Superintendent were reorganized and relocated from the Department of Finance to the Department of Government Services and Lands.

  Our follow-up review indicated that the Department of Government Services and Lands still holds the view that the Superintendent of Pensions should remain an employee of Government and that there is sufficient independence within the *Pensions Benefits Act, 1997* to permit this. In view of this position, we will discontinue monitoring of this recommendation in the future.

- Our second recommendation was that the Superintendent of Pensions should take an active role in ensuring compliance with the *Pension Benefits Act* and Regulations through inspections of employers' records. In response, the Department of Finance advised that the review and analysis of pension plan documents was adequate to ensure compliance with the Act and Regulations and that actual audits of plan documents and files were not necessary, except in cases where the Superintendent has concerns regarding compliance.

  A new *Pension Benefits Act, 1997* received Royal Assent on 19 December 1996 and included enhanced information filing and reporting requirements for plan administrators. The Department contends that the enhanced information filing and reporting requirements for plan administrators is sufficient to ensure compliance with the Act. Our follow-up review indicated that the Department of Government Services and Lands has not conducted compliance reviews and has no plans to do so in the future. Again, in view of this position, we will discontinue monitoring of this recommendation in the future.

- Our third recommendation was that the Superintendent of Pensions should prepare a report on the affairs of the Office for the Minister of Finance so that it may be tabled in the House of Assembly as required by the Act. In response, the Department of Finance advised that annual reports had not been submitted to the Minister of Finance but that in future a report would be prepared each year for presentation to the House of Assembly.

Our follow-up review indicated that the 1995-96 annual report by the Superintendent of Pensions was tabled in the House of Assembly in May 1998. Although the *Pension Benefits Act, 1997* does not contain the annual report requirement contained in the prior Act, the Department indicated that it intends to prepare annual reports for 1996-97 and 1997-98 for submission to its Minister. We will continue to monitor future reporting on the affairs of the Office due to the discretionary nature of accountability reporting by the Minister to the House of Assembly.

Unfunded pension liability

The recommendations relating to the development of a plan to address Government's unfunded pension liability are now discussed in our Report of the Auditor General to the House of Assembly on the Audit of the Financial Statements of the Province for the Year Ended 31 March 1998. As indicated in that report, Government has taken action to address the unfunded liability of both the Public Service Pension Plan and the Teachers' Pension Plan. While these measures will favourably impact the unfunded liabilities, we are still concerned with the extent of the Province's overall liability. As at 31 March 1998, the total unfunded pension liability reported in the consolidated financial statements of the Province was $3.134 billion.

4.2.10 Monitoring Co-operative Societies (1996 Annual Report, Part 3.12)

Introduction

In 1996, we performed a review of the Province's role in monitoring and regulating co-operative societies, specifically, to assess whether there were adequate systems to monitor the activities of co-operative societies and to ensure co-operative societies were complying with the *Co-operative Societies Act* and Regulations. As at 30 September 1998, the Province had 75 active co-operative societies registered with the Department of Government Services and Lands with a total membership of 57,000 and total assets of $82.7 million. The Department, through the Registrar of Co-operative Societies, is responsible for the regulation of co-operative societies.

In 1996, we concluded that the Registrar did not have a clear mandate for the regulation of co-operative societies, there were no formal procedures for monitoring and reporting information submitted by co-operative societies annually, and there was inadequate documentation to support the examination process.

Update

Since our review in 1996, the Department has taken some actions regarding some of our recommendations as follows:

Objectives for Monitoring

1996 Recommendation

The mandate of the Registrar should be clearly defined and communicated. This mandate should be used to establish operational objectives.

Action Taken

The mandate of the Registrar and operational objectives will be made clearer once the new *Co-operative Societies Act* is passed. A new *Co-operative Societies Act*, Bill 10, is presently awaiting third reading in the House of Assembly.

Review of Annual Returns

1996 Recommendation

The Department should establish formal procedures for the review of the co-operative societies' annual returns. Review checklists should be established, key result areas should be identified and monitored, and formal reports should be prepared and communicated to appropriate personnel.

Action Taken

The Department has established formal procedures for the review and monitoring of annual returns submitted to the Registrar. A checklist is in place to ensure that a review is carried out and key areas are identified and monitored. Standard reports are prepared and communicated to the Registrar, the Board of Directors of the co-operative society and if necessary to the Assistant Deputy Minster.

Examinations

Recommendations

The Department should:

- *develop a formal examination process that is consistent with legislative requirements;*
- *establish criteria to determine which co-operative societies should receive priority in the examination process and to ensure that all co-operative societies are examined on a cyclical basis;*
- *ensure that the examination working paper files adequately document the procedures followed and the conclusions reached by the Co-operative Examiner;*
- *update the procedures manual to include all areas of the examination process; and*
- *establish a formal reporting process to ensure the results of the examination process are communicated to the Department Executive and to the co-operative societies.*

Action Taken

The new *Co-operative Societies Act* requires that an external audit be performed on each co-operative society annually and be reported to the Boards' of Directors. It is not the intention of the Department to conduct financial examinations of co-operative societies. Rather, it is the responsibility of the Boards of Directors of the co-operative societies to ensure they are operated on a sound financial basis.

Compliance with Legislative Authorities

Recommendation

The Department should establish formal procedures for monitoring compliance with legislation and to ensure co-operative societies comply with the Act and Regulations.

Action Taken

The Department endeavours to have the annual returns submitted on an annual basis. When co-operative societies are tardy, a checklist is in place which outlines the procedure to follow and action to be taken. Reviews of annual returns are performed by the Co-operative Section of the Department to ensure compliance with legislation.

Department of Justice

4.2.11 Registrar of the Supreme Court (1994 Annual Report, Part 4.7)

Introduction

The Estates Office of the Registrar of the Supreme Court of Newfoundland administers the estates of deceased persons upon appointment by the Supreme Court and the trusts of minors and mentally disabled persons upon appointment by the Court or by virtue of the *Mentally Disabled Persons' Estates Act*. It also administers funds paid into Court or to the Registrar under various statutes, including the *Judicature Act*. The financial statements of the Registrar for the year ended 31 March 1998 reported total assets held in trust of $20 million.

In 1994, we concluded that practices followed by the Registrar in fulfilling legislated responsibilities were inadequate. We made recommendations at that time to assist the Registrar in the stewardship role of acting in the best interest of clients.

Update

As we reported in 1997, the Registrar has taken satisfactory action on most of our recommendations made in 1994. However, with respect to the other recommendations for the improvement of stewardship at the Estates Office, the status of the action taken is outlined as follows:

Closing of Estate Files

1994 Recommendation

A systematic basis for anticipating the expected date of closure of files (deceased persons) and final discharge of estates should be implemented to ensure accounts do not remain outstanding for unreasonable lengths of time in future.

Action Taken

The Registrar indicated that, as previously reported, no formal basis has been developed to anticipate the date of file closure for deceased persons estates. However, all current or on-going files are regularly reviewed and the number of older files is still being reduced.

Delays in Handling Client Matters

1994 Recommendation

Administrative matters, such as filing required documents on behalf of clients, should be dealt with on a timely basis and policies should be developed to document the process of handling these various matters. These policies should include a requirement that all files be reviewed on a regular basis to identify outstanding matters.

Action Taken

The Registrar indicated that, as previously reported, the Estates/Trust policies and procedures section of the manual is still incomplete. Although most policies are now in place, they have not as yet been formalized in the manual.

Policies and Procedures Manual

1994 Recommendation

Standard policies and procedures relating to the administration of estates and trusts should be implemented to ensure all necessary actions are performed on a regular basis. These should be formally documented by way of a manual issued to all staff.

Action Taken

The Registrar indicated that the completion of the manual is still on-going.

4.2.12 Office of the High Sheriff (1994 Annual Report, Part 4.8)

Introduction

The Office of the High Sheriff acts as the enforcement arm of the Supreme Court of Newfoundland and is responsible for jury management and court security in the Province. The Office also enforces judgements issued by the Court including the service of criminal and civil documents, executions and the seizing and selling of real and personal property.

The Office of the High Sheriff began preparing financial statements in 1992-93. Our Office has performed attest audits on these financial statements since that time. For the years ended 31 March 1993 and 1994, we issued a denial of opinion due to serious deficiencies in internal controls which made it impossible to gather sufficient, appropriate audit evidence to render an opinion. At that time, a recommendation was made to ensure the Office of the High Sheriff took immediate steps to address these deficiencies with the objective of obtaining an unqualified auditor's opinion.

In 1996, we reported that we considered the progress on the recommendations to be satisfactory in all areas. Actions taken have resulted in an unqualified opinion being expressed on the financial statements of the Office of the High Sheriff for 31 March 1996. We also reported that further required improvements in internal controls were to be addressed during the design of a new accounting system in conjunction with the passage of the *Judgement Enforcement Act*. Such improvements include the use of a computerized general ledger and the ability to produce periodic reports for monitoring of financial operations.

In 1997, we reported that the *Judgement Enforcement Act* and a new computerized accounting system had been implemented on 1 June 1997. In addition, the enforcement of small claims judgements had been added to the mandate of the Office of the High Sheriff. This has added greatly to the workload of the Office of the High Sheriff. As a result of these changes, the Office of the High Sheriff requested a deferral of the financial statement audit for the year ended 31 March 1997. Consequently, comments on further action taken by the Office of the High Sheriff concerning improvements in internal control was deferred until we review the new system.

Update

The Office of the High Sheriff has completed its first year of operations since the implementation of the *Judgement Enforcement Act* and the new computerized accounting system on 1 June 1997. As a result of the increased workload of the Office of the High Sheriff, additional staff were hired during the year. The financial statement audit for the year ended 31 March 1997, deferred at the request of the Office of the High Sheriff, was completed in May 1998. The financial statement audit for the year ended 31 March 1998 is planned for later in 1998-99. The Office of the High Sheriff informed us that, during the design of the new systems, it addressed the required improvements in internal controls that had been recommended, and continues to monitor and implement the necessary changes. The Office of the High Sheriff also informed us that it is in the process of preparing its first annual report, since the implementation of the *Judgement Enforcement Act*, for submission to the Department of Justice.

Comments on further action taken by the Office of the High Sheriff concerning improvements in internal controls will be deferred until we review the new system during the financial statement audit for the year ended 31 March 1998.

4.2.13 Board of Commissioners of Public Utilities (1995 Annual Report, Part 3.5)

Introduction

The Board of Commissioners of Public Utilities is an independent, quasi-judicial regulatory agency appointed by the Lieutenant-Governor in Council, and operates under the *Public Utilities Act*. The Board's primary responsibility is the regulation of the electric utilities in the Province to ensure that the rates charged are just and reasonable, and that the service provided is safe and secure. Other responsibilities include the setting and regulation of the benchmark rates for automobile insurance, as well as the regulation of bus service which originates and ends on the Trans Canada Highway. Appeals from decisions of the Board lie to the Newfoundland Supreme Court, Court of Appeal. For administrative purposes, the Board submits an annual report to the Minister of Justice.

In 1995, we made recommendations to improve management practices, improve efforts to ensure all legislated responsibilities are met, and to develop formal policies and procedures for the hiring of consultants.

In 1997, we reviewed the progress of the Board of Commissioners of Public Utilities in implementing our 1995 recommendations. At that time we reported that the Board had taken satisfactory action on our recommendations but not all recommendations had been fully addressed.

Update

The Board has continued to take satisfactory action on our 1995 recommendations.

Management Practices

1995 Recommendation

The Board should continue efforts to improve management practices. Specifically:

- *There has been a vacancy in Board membership for several years and the Board lacks staff positions such as an electrical engineer and an auditor to carry out specific responsibilities.*
- *There are no strategic or operational plans in place.*
- *The Board's annual report as an accountability document could be improved by linking results with goals and objectives.*

Action Taken

The vacancy in the Board membership has been filled with the appointment, by the Lieutenant-Governor in Council, of a full-time Commissioner in December 1997. With this appointment, all full-time Commissioner positions are filled. In April 1998, the Board hired a Senior Electrical Engineer and an Information Technology Officer; however, the Engineer was subsequently seconded and the Information Technology Officer left. The Board is in the process of recruiting a new Information Technology Officer. The temporary Compliance Officer has been replaced by a permanent Compliance Auditor.

The Board indicated that the strategic plan has been delayed but is currently being addressed with the intention of having it completed before the end of 1998.

The Board indicated that the goals and objectives set forth in the strategic plan will be used as benchmarks upon which progress can be reported in subsequent annual reports.

Compliance with Legislation

1995 Recommendation

Legislation should be amended to clarify its intent with respect to reductions in assessments and the disposition of surplus funds.

Action Taken

The Board indicated that it has conducted an extensive review of the *Public Utilities Act* and submitted to the Minister a number of proposed changes. The Board is hopeful that these changes will be enacted during the Fall session of the House of Assembly.

4.2.14 Hiring of Outside Legal Counsel by Government Departments, Agencies and Boards (1996 Annual Report, Part 3.10)

Introduction

In 1996, we reported on our review of the hiring of outside legal counsel by all government departments, and selected agencies and boards as identified in Minute of Council 93-0473. In 1990, Cabinet authorized that guidelines be established for the retention of legal services and that the cost of these services be reported. The objectives of our review were to examine the process employed by the Department of Justice to develop guidelines governing the retention of outside legal counsel and to assess compliance with the corresponding Minutes of Council, including the responsibilities assigned to the Department of Justice. It was concluded that guidelines for the hiring of outside legal counsel were not established as directed, and as a result, Government did not know how much had been paid by departments, agencies and boards for outside legal counsel nor did it know how the majority of these entities had selected their outside legal counsel.

Update

On 19 December 1996 Minute of Council 96-0899 was issued which rescinded Minutes in Council 90-0816, 92-1001 and 93-0473. Minute of Council 96-0899 identified eight crown agencies who were to notify the Minister of Justice of their current arrangements with legal counsel and seek the Minister's approval prior to changing these arrangements. No further direction was provided to the Department of Justice regarding the hiring of outside legal counsel.

Establishment of Guidelines

1996 Recommendation

The Department should comply with the provisions of Minute of Council 0816-'90 by developing general guidelines for the hiring of outside legal counsel for use by all Government entities.

Action Taken

Minute of Council 0816-'90 has been rescinded. Therefore, the Department no longer has a mandate to develop guidelines for the hiring of outside legal counsel.

Monitoring Compliance of Crown Agencies

1996 Recommendation

All Government departments and Crown agencies should enter into formal agreements for the retention of outside legal counsel.

Action Taken

The Department of Justice has no formal requirement that Government departments and Crown agencies enter into formal agreements for the retention of outside legal counsel. The Department reports that if consulted, they would recommend such as agreement. They do not however, monitor departments and agencies to ensure such agreements are in place.

Excluded Entities

1996 Recommendation

The Department should inform the Human Rights Commission and the Labour Relations Board of the requirements to conduct proposal calls for legal services.

Action Taken

Minute of Council 93-0473 which directed these entities call for proposals for legal services has been rescinded by Minute of Council 96-0899.

Reporting Requirement

1996 Recommendation

The Department should comply with Minute of Council 92-1001.

Action Taken

Minute of Council 92-1001 has been rescinded.

Other Departments

1996 Recommendation

The Department should review expenditures incurred by other departments for outside legal counsel to determine whether guidelines are required and whether departments should report on the hiring of legal counsel.

Action Taken

The Department has not developed guidelines to cover the hiring of outside legal counsel, nor are departments required to report expenditures for outside legal counsel to the Department of Justice.

Out of Province Legal Counsel

1996 Recommendation

The Department should develop guidelines for the hiring of outside legal counsel including out-of-province legal counsel.

Action Taken

The Department has not developed guidelines to cover the hiring of outside legal counsel including out-of-province counsel.

4.2.15 Royal Newfoundland Constabulary (1996 Annual Report, Part 3.11)

Introduction

In 1996, we reported on our review of the adequacy of the systems and processes for planning, deploying and monitoring human resources and for maintaining the inventory of supplies and firearms for the Royal Newfoundland Constabulary (RNC). We concluded that improvements were needed in the planning, deployment and monitoring of staff as well as the maintenance, security and utilization of store supplies, firearms and police vehicles.

Update

In October 1998, we completed a review of the action taken on our 1996 recommendations. Based upon a review of documentation, the RNC are awaiting the implementation of a new Integrated Constabulary Automated Network (ICAN) which will replace the existing Police Information Retrieval System (PIRS) before they address most of our recommendations. The implementation of ICAN is to occur in six phases with full implementation scheduled for spring 2000.

Human Resource Management

1. Dispatching and Responding to Calls

1996 Recommendation

The RNC should maintain statistics on the types of calls received, the priority assigned to the calls and police response times. This data should then be used to assess the effectiveness of the Differential Police Response system on a regular basis.

Action Taken

The new Integrated Constabulary Automated Network (ICAN) system, when implemented, is expected to address this issue.

2. Scheduling of Shift Work

1996 Recommendation

The RNC should determine the demand for police services by hour and day with a view to assessing the suitability of the concept of an "equal watch" shift to better match human resources with the demand for police services. The RNC should periodically evaluate the effectiveness of the shift schedule.

Action Taken

The Force is currently negotiating with the Royal Newfoundland Constabulary Association (RNCA) to obtain contract language that allows for more shifting flexibility. The issue of shifting, however, is a contractual item and as such subject to the Collective Bargaining Process. Where possible, the Force has made every effort to deploy resources according to need, such as the Directed Patrol Unit (DPU), which can be deployed at any time.

3. Administrative Duties

1996 Recommendation

The RNC should establish a system to monitor the amount of time its members spend on administration, including report writing, and review both its operating policies and available technologies to determine if efficiencies can be attained.

Action Taken

With the implementation of the new ICAN system, it is anticipated that efficiencies will be obtained since it will enable the RNC to reduce the number of police resources required to perform administrative tasks, thereby freeing up resources to perform core police functions. It is anticipated the system will reduce the time spent by patrol officers on tedious, time consuming, manual tasks and allow them to concentrate their efforts on their primary public safety roles, rather than completing manual forms, reviewing and verifying data. It is anticipated that the officers on patrol will be able to reduce the amount of time which they spend in the police station from the current 25% to approximately 15%. In addition, the new ICAN system includes a provision for the use of laptop computers in police cars and direct entry of data by officers.

4. Civilianization

1996 Recommendation

The RNC should further pursue the issue of Civilianization.

Action Taken

During the past two years, as police officers left the Force, the RNC has used these funds to create and recruit a number of badly needed specialized civilian positions. The Force intends to continue with this initiative as funding becomes available.

5. Community-Based Policing

1996 Recommendation

The RNC should continue to evaluate the concept of community-based policing to determine if it would be an effective means of utilizing police resources in other areas of the Province.

Action Taken

The concept of community-based policing has been introduced in all RNC jurisdictions. Complimenting this initiative is the concept of zone policing which is currently being considered by the executive of the Force.

6. Performance Management

1996 Recommendation

To enable the RNC to assess the effectiveness of its operations, performance indicators and a process to monitor these indicators should be established.

Action Taken

The RNC is committed to the concept of improved case management and criminal analyst activities. It is anticipated, however, that the introduction of the new ICAN system will facilitate the RNC's efforts in this regard.

7. Salaries and Benefits

1996 Recommendations

The RNC should assess its human resource information requirements to determine whether the information requirements can be met internally.

The RNC should comply with both internal and Government personnel policies for the processing and management of payroll.

Action Taken

The RNC believes that the new ICAN system should alleviate this concern. One of the benefits of this system will be the development of a Personnel and Administration Records System specifically for the RNC. This will enable the RNC to record attendance, maintain and manage leave records, access information required for management of the Collective Agreement, capture and maintain information related to promotions, evaluations, transfers, disciplinary history, kit assignments, and courses taken.

All internal/government policies relative to payroll functions are being followed and monitored.

8. Other

(a) Performance evaluations

1996 Recommendations

The RNC, through consultation with employees, should establish performance objectives and criteria to measure whether these objectives have been achieved. These objectives and criteria may vary based upon the duties involved.

Formal performance evaluations should be completed for all staff.

Action Taken

In 1997, a study was conducted on the Force's performance appraisal system which recommended as its first requirement a comprehensive job analysis for all positions with the RNC. A Committee is currently in place to review all individual job descriptions. It is expected that the development of a performance appraisal system for the RNC will take quite some time, since the Force is unable to dedicate any full time resources to this project. With the development and implementation of the Force's new ICAN system, it is believed that the RNC will have the ability to easily access indicators of work performance and thus enable them to develop a new performance appraisal system.

(b) Quality reviews

1996 Recommendation

The RNC should complete the development of a quality review process for police reports and files.

Action Taken

The RNC reports that they have developed a mandatory quality review system. Divisional Commanders submit quality review reports to the office of the Chief of Police. Police investigative files are reviewed through the supervisors and the Readers Office.

Inventory Management

1. Stores

1996 Recommendations

Policies and procedures relating to supplies inventory should be reviewed to determine whether current controls are adequate.

The RNC should determine what inventory should be included in the computerized system and regular inventory counts should be performed and the results reconciled to the inventory system.

Action Taken

The Force now has an employee responsible for coordinating the purchasing function. It has also made enhancements to its computerized inventory system and has developed a policy to ensure that a comprehensive report on all inventory is forwarded to the Chief on an annual basis. This report documents the movement of all inventories currently under the Force's control (i.e. movable capital assets, Quartermaster Stores inventory, firearms).

2. Firearms and Ammunition

1996 Recommendations

There should be a centralized inventory system to record all firearms, and regular inventory counts at all locations should be performed and results reconciled to the inventory system.

The responsibilities of the Rangemaster should be reviewed and documented to ensure there are adequate procedures in place to maintain controls over firearms.

A listing of obsolete inventory should be prepared and a policy developed for their destruction and removal from inventory.

Action Taken

As discussed above, enhancements have been made to the computerized inventory system and a policy has been developed to ensure that a comprehensive report on all inventory is forwarded to the Chief on an annual basis. This report documents the movement of all inventories currently under the Force's control, (i.e. Quartermaster Stores inventory, firearms etc.). In addition, an "in-house" inventory system to control the movement of firearms was created by the Information Technology Division of the Department of Justice.

3. Vehicle Fleet Management

1996 Recommendation

The RNC should determine exactly how many vehicles are required for policing. The impact on policing services as a result of the unavailability of vehicles should be assessed.

Action Taken

A proposal was invited and received from a highly regarded consulting firm specializing in fleet management. A decision on whether to fund the consultants review, however, has not yet been reached.

The new ICAN system will include a Fleet Management System which will enable the RNC to record information on the cost of maintenance and repairs to its fleet of cars, schedule regular maintenance checks, and track mileage and fuel consumption costs.

Department of Education

4.2.16 Memorial University of Newfoundland (1994 Annual Report, Part 4.9)

Introduction

In 1994, and in our updates in 1996 and 1997, we concluded that the Department of Education did not have an adequate system of accountability in place over grants paid to Memorial University of Newfoundland. In addition, although the House of Assembly approved funding to the University during 1997-98 for approximately $120 million, there was inadequate accountability over this funding.

As a result of our review we recommended that a system of accountability be established over grants to the University. This system should include, but not be restricted to, the following components:

- Roles, responsibilities and duties of the Department of Education and the University should be well defined and communicated. These should be included in legislation and further defined in policy.
- There should be adequate reporting to the Department of Education and the House of Assembly. This includes both financial and performance monitoring.
- The system of accountability should be strengthened by an independent audit process to assess the fairness of the University's representations on performance and to assess management systems and controls.

Update

An adequate system of accountability over grants paid to Memorial University of Newfoundland has not been established; however, the Department and the University are engaging in regular dialogue about their operating grant. A mid-year review will be undertaken to provide the Department with an assessment of funding issues. Also, the Department is working with the University on their three year outlook to identify trends in enrollment, course offering and funding matters.

4.2.17 Monitoring of the College System (1995 Annual Report, Part 3.7)

Introduction

For the 1997-98 fiscal year, the Department of Education spent $40.6 million towards funding of the provincial college system. Approximately $2.3 million of this amount was contributed by the Federal government. In 1998-99 the Department's funding of the college system is expected to increase to $44.2 million with $4.5 million of this amount being funded by the Federal government.

In 1995, and again in our 1997 update, we concluded that the Department of Education did not provide adequate direction in planning and coordination for the college system, the funding process was not directly linked to the goals and objectives of the college system and the current monitoring and reporting was insufficient to provide adequate information on the operations of the colleges.

Update

We have been informed by the Department of Education that it has taken action that will address certain of our recommendations. More specifically:

- The Department follows up on a regular basis with the College concerning the extent of direct Federal funding. The Department is aware that the College reserves 20% of its regular program seats for Federal clients and that for the 1997-98 fiscal year received $6.1 million in Federal funding for seat purchases.

- The Department now requests annually a list of programs and the number of seats in each program. This process is part of the program review deliberations which are discussed with the College each year.

- In 1997-98, the College initiated a review of its class sizes and pupil/instructor ratios as a result of the Department's findings on College resource allocations. The College will continue to review its resource allocations during the 1998-99 academic year.

- The College is well into the process of consolidating their student record keeping system. This system was expanded to include enrolment records from all campuses across the Province. It is anticipated that by the Fall of 1999, all records will be on the system. The system has also been changed so that data collection and cleaning is more expedient. To date, all college data up to and including 1996-97 has been entered and cleaned. Data entry for 1997-98 is underway and near completion while 1998-99 information has been initiated.

- The Department has a number of publications which have been released or are to be released in the near future regarding student outcomes. The next graduate outlook document was due to be released in the Fall of 1998, a postsecondary indicators report was released in April 1998 and the Department recently released its *Strategic Education Plan for the Year 2000 and Beyond*. While the postsecondary indicators document did not provide set standards for the indicators reported, the strategic plan does provide three year targets for indicators identified to measure success in achieving the nine strategic objectives.

- The Department is reviewing the finances of the College on a quarterly basis. The College and the Department are currently working on a three year plan.
- The Department stated that while block funding does not allow the Department to shift funding to encourage access to a particular program, the consultative process with respect to program reviews, does allow the Department to encourage the College to shift its funding to increase accessibility. For example, for the 1998-99 academic year, the College reallocated program funds to provide for a 25% increase in enrolment in information technology programs.

Effective 1 January 1997, the new *Colleges Act, 1996* established one public college for the Province, the College of the North Atlantic. Each of the previous five colleges continued separate financial operations to their fiscal year end, 31 March 1997. As a result, any further monitoring and review of this area will be included as part of our cyclical audits of government programs and Crown agencies and boards.

Department of Municipal and Provincial Affairs

4.2.18 Monitoring and Control of Municipal Debt (1994 Annual Report, Part 4.10)

Introduction

In 1994, we reported on the extent of monitoring exercised by the Department of Municipal and Provincial Affairs over municipal debt and municipal financial management. Our review indicated that the Department did not adequately monitor and control the financial activities of the Province's municipalities. We reported that many municipalities were experiencing difficulties in meeting their debt obligations and that the Department did not have current financial information to determine whether municipalities had excessive or unmanageable debt obligations.

In 1996, following a review of action taken by the Department, it was concluded that the recommendations in our 1994 report had not been adequately addressed. In 1997, following a further review of action taken by the Department, it was concluded that the Department still needed to take further steps to ensure that information required for financial planning and decision making is submitted to the Department on a timely basis. We reported that the financial position of the Province's municipalities had not significantly improved and that the Department should monitor the financial position of municipalities on an ongoing basis. Our review indicated that the Department should monitor municipalities' compliance with the Municipalities Act.

As at 31 March 1998, total municipal debt owed to the Newfoundland Municipal Financing Corporation (NMFC) was in excess of $330 million. Debt owed to NMFC has decreased from $404 million in 1996. During the year, 61 municipalities restructured approximately $78 million of debt, previously owed to NMFC, with private lending institutions.

Update

1994 Recommendations

The Department should collect and maintain historical and current information on the growth and size of municipal debt. This summary information should be used to assist the Department in financial planning and decision making.

The Department should monitor the financial position of municipalities on an ongoing basis.

The Department should also continue to monitor the plans of municipalities to bring their debt charges to a current status.

The Department should monitor municipalities' compliance with the Municipalities Act. Appropriate policies and procedures should be implemented to reflect the intent of the legislation.

Action Taken

In December 1998, we again visited the Department to determine action taken on our 1994 recommendations. Based on information provided by the Department, total municipal debt at 31 December 1997 was estimated at $504 million (1996 - $558). This amount was comprised of $350 million owed to NMFC, $12 million owed to other government agencies and $141 million owed to private institutions. Our review indicated that the Department monitors the financial position of municipalities through the collection and maintenance of historical and current information on the growth and size of municipal debt. This information is used to assist the Department in financial planning and decision making. As well, the Department monitors municipalities' compliance with the Municipalities Act.

4.2.19 Municipal Infrastructure Program (1995 Annual Report, Part 3.10)

Introduction

In 1995, we conducted a review to determine the financial viability of the Infrastructure Program administered by the Department of Municipal and Provincial Affairs and to determine whether the economic planning zones identified in the Strategic Economic Plan of the Province were considered when evaluating proposed projects to be funded under the Program. We concluded, among other things that:

- many municipalities were in poor financial condition and unable to finance their share of municipal infrastructure assets and the maintenance and replacement costs associated with these assets;
- municipalities did not have adequate monitoring systems and procedures to address areas such as revenue, expenditure, debt management and management reporting;
- municipalities did not have formal procedures in place to monitor the condition of their water and sewer systems;
- the Department had not prepared a plan and budget for the evaluation of the Infrastructure Program, as required by the Canada-Newfoundland Infrastructure Agreement; and
- there was no evidence of any correlation between the infrastructure development approved by Government and the direction of infrastructure growth outlined in the Province's Strategic Economic Plan.

Update

Monitoring of Infrastructure Assets

1995 Recommendation

The Department should provide direction to municipalities as to adequate systems and procedures which should be in place to monitor all infrastructure assets including roads, bridges, water and sewer systems, and drainage.

Action Taken

In August 1998 we contacted the Department to determine if any further action had been taken in this area. Officials of the Department have indicated that municipalities first need a detailed listing of existing assets before adequate monitoring systems can be developed. The Department has stated that it has undertaken an initiative to develop related capabilities for municipalities.

In addition, the Department has proposed that for future capital works, the municipalities demonstrate that they are providing a preventative maintenance program for the existing and proposed projects.

Strategic Economic Plan

1995 Recommendation

The Department should establish specific plans for the Infrastructure Program which are consistent with the Province's Strategic Economic Plan.

Action Taken

In the past, the Department indicated that the Province's Strategic Economic Plan is considered in planning the Infrastructure Program but that there are also other considerations such as the urgent needs of smaller communities not designated as growth centres and input from the Federal Government which contributes one third of the funding under the Infrastructure Program. However, the Department has not indicated the establishment of specific plans for the Infrastructure Program which are consistent with the Province's Strategic Economic Plan.

Department of Environment and Labour

4.2.20 General and Environmental Management Practices (1994 Annual Report, Part 4.11)

Introduction

In 1994, we conducted a review of the management practices and environmental management and control activities of the former Department of Environment and Lands. Our review was designed to assess whether policies and procedures were adequate to ensure compliance with relevant legislation and standards. We concluded that, in general, most aspects relating to the Department's management practices were not adequate and should be improved. In addition, the policies and procedures for environmental management and control activities were not adequate to ensure that the Department and all individuals and companies who emit pollutants into the environment (i.e. dischargers) complied with relevant legislation and standards.

In 1996 and 1997, following our review of action taken by the Department, we concluded that the recommendations in our 1994 report had not been adequately addressed.

Update

In August 1998, we contacted the Department to determine if any further action had been taken on our 1994 recommendations. In November 1998, we received a response which indicated that no further progress had been made since the review that had been done in December 1997. Therefore, our conclusion is the same as in 1997; that some of our recommendations had been adequately addressed but most have not been. Specifically:

Management Practices

1994 Recommendations

The Department should establish strategic and operational plans.

The Department's annual report should provide sufficient information on a timely basis to assist the Legislature in holding the Department accountable for its use of public resources.

The Department should continue its efforts to improve the roles, responsibilities and reporting relationships within its regional offices.

The Department should review its human resource management policies to address such areas as performance evaluations, employee training needs, position descriptions, and the monitoring of leave entitlement.

Action Taken

The Department indicated that it is in the early stages of a strategic planning process. As part of the annual budget process, the Department has prepared and submitted a three year business plan in accordance with Treasury Board recommendations which is to be updated each year.

The Department has not prepared an Annual Report for submission to the House of Assembly since 1991-92.

The Department has indicated that its Executive has held meetings with regional staff. The Department is working to improve communications between headquarters and the regions and is involving all departmental personnel in a team building initiative with the assistance of an outside professional development firm.

The Department indicated that, although a performance evaluation process is available for use by all staff, it is optional, and not all divisions of the Department are completing these evaluations. The Department intends to provide orientation sessions to managers as well as support on how to provide constructive feedback.

The Department has a Training Development unit that has the responsibility for the identification of individual and group employee training needs. The unit identifies training requirements that are of a general nature and relies on line managers to identify training requirements that are of a technical nature. The Department has recently completed a training needs assessment for all employees. A Training Officer has been hired and some training sessions have been held.

The Department indicated that there has been considerable work completed in updating position descriptions in the past two years; however, we found that all position descriptions are still not current.

Our review of the leave system currently in place at the Department indicated that the leave entitlements are up to date.

Environmental Management and Control Activities

1994 Recommendations

The Department should review existing legislation to ensure it is current and consistent with Departmental objectives.

The Department should maintain a current and complete inventory of all dischargers, discharges and discharge points.

The Department should ensure compliance with the Waste Material Disposal Act prior to the issuance of a certificate of approval to operate a waste disposal site or waste management system. Supporting documentation should be retained and appropriately filed to indicate compliance with legislation.

A monitoring process to test the reliability of discharger information being submitted to the Department should be developed and implemented for water pollutants.

The Department should consider increasing existing inspection coverage and developing a process to obtain certification from third party inspectors regarding the adherence of applicable permit terms and conditions.

Controls should be strengthened to ensure that annual inspections of PCB storage sites are performed, reports are properly completed and deficiencies followed up. The files should also contain evidence of overall review and approval of the inspections by senior management.

The Department should determine the extent and severity of non-compliance with legislation and implement procedures to bring dischargers into acceptable compliance over a reasonable period of time.

Action Taken

The Department indicated that a new *Environmental Protection Act* is currently being drafted to modernize and update the existing legislation and ensure that appropriate environmental management tools are in place to facilitate departmental objectives.

The Department does maintain an inventory of dischargers, discharges and discharge points but it is not complete. A data base has been developed for tracking municipal discharges. The data base, while not complete, does contain information on approximately 70 municipalities. The Department indicated that a lack of resources has prohibited further data collection.

The Department indicated that the responsibility for the monitoring of waste disposal sites and waste management systems has been undertaken by Government Service Centres throughout the Province. The Government Service Centres are currently conducting a survey of waste disposal sites in the Province to determine the extent of problems with a view to developing solutions to the problems identified.

The Department indicated that, due to the lack of resources to develop and implement a monitoring process to test the reliability of discharger information being submitted to it for water pollutants, such a process is not in place.

The Department indicated that it has experienced a reduction in the number of inspectors during the past year. The Department has recently commenced a review to determine how it can more effectively use its existing group of inspectors to obtain greater inspection coverage.

Little progress has been made to ensure that annual inspections of PCB storage sites are performed.

The Department indicated that it establishes Compliance Agreements in situations where non-compliance with legislation is encountered. These Agreements establish the time frames during which companies have to comply with the applicable legislation. There are currently two such Agreements in place. The Department intends to set up these Agreements with other industries over the next year.

Department of Works, Services and Transportation

4.2.21 Leased Accommodations
(1994 Annual Report, Part 4.12)

Introduction

At the time of our review in 1994, the Works and Services Branch of the Department of Works, Services and Transportation leased, on behalf of the various Government departments, approximately 1,012,000 square feet of space located in 75 centres throughout the Province. Annual leasing and related operating costs at 31 March 1994 were reported in excess of $7 million. In the 1993-94 fiscal year there were approximately 250 leases.

The Branch is also responsible for managing a number of agreements for the lease of Government-owned properties. For the year ended 31 March 1994, the Division managed an estimated 80 such leases generating revenue of $425,490.

In 1994, we performed a review to assess compliance with the *Public Tender Act* and *Regulations*, established departmental policy and procedures, and generally accepted accounting principles for the disclosure of lease obligations.

We concluded that the Department did not fully comply with the *Public Tender Act* and *Regulations*. In addition, there were no documented policies and procedures to provide guidance to staff in the performance of their duties. Most informal policies and procedures in place were inadequate or not properly documented as having been completed. Our review also disclosed that significant lease commitments were not disclosed in the Consolidated Revenue Fund financial statements and that information on leases maintained by the Department in its Rental Index Information System was often inaccurate.

Update

During 1997, we visited the Department to assess the action taken on the recommendations made in our 1994 report. Based upon a review of certain documentation and discussions with departmental officials, we concluded that the Department has taken action on most of our recommendations made in 1994. In our 1997 Annual Report, we updated our comments and recommendations. During 1998, we asked the Department of Works, Services and Transportation to inform us as to the progress made on our 1994 recommendations. The Department's response is outlined below.

1994 Recommendations

Policy and Procedures Manual

The Division should continue to concentrate efforts on developing a manual to document and communicate policies and procedures relating to leasing activity.

Lease of Government-Owned Properties - Data Maintenance

The Division should develop and implement an information system to record the available information system to record the available information on leases of Government-owned properties. This information should be current, available to appropriate officials at any point in time and reviewed by senior management on an ongoing basis.

Rental Index Information System

The Division should ensure the data entered into the Rental Index Information System is accurate.

Action Taken

The Department indicated that the Realty Services and Accommodations Division is continuing to update the policies and procedures manual as changes occur. The Division has converted to a Microsoft Access Database, in which it currently maintains information related to leasing. The Division is continually endeavouring to maintain and provide accurate information.

4.2.22 Management of the Provincial Road System (1996 Annual Report, Part 3.9)

Introduction

In 1996, we conducted a review to assess the adequacy of the systems and procedures used in the selection and management of road construction and maintenance activities.

As resources for the management of the road system are increasingly constrained, an objective and systematic selection process for road construction and maintenance activities is required. This process should include an objective assessment of the condition of roads, planning and priorizing the needs based on this objective assessment and other predefined criteria, and the identification of the rehabilitation and maintenance activities required to maintain the road system. Our review indicated that the Department's processes for managing the Province's road systems are not adequate. For example:

- There is no formal program for regularly assessing the physical conditions of roads and bridges on an objective basis for the purpose of identifying and priorizing overall provincial construction and maintenance requirements. The importance of this is further increased as a result of reductions in funding since 1991 for road construction and maintenance.

- The Department does not have a formal long-term plan for the development and maintenance of the overall provincial road system. As a result, there is no formal strategy for priorizing the Department's objectives and allocating resources. Instead, the Department, in a general and informal manner, determines the construction requirements of new roads in the Province.

- The Department does not co-ordinate or priorize between maintenance and rehabilitation activities to ensure the Province's roads are maintained in the most cost-effective manner. In addition, the Department does not know the long-term costs and effects which deferred maintenance and rehabilitation has on its roads.

Project management involves the processes used by the Department to ensure project costs are appropriately estimated and contracts are properly awarded, monitored and evaluated. Accurate cost estimates are essential in defining the scope of, and effectively managing a project. Monitoring and evaluation are required to ensure funds were spent for their intended purposes, project objectives have been achieved and significant cost variances from budget have been adequately explained. Our review indicated that the Department's project management processes are not adequate. For example:

- Since there are no attempts to estimate the cost of individual road maintenance activities or to retain historical data on the actual costs of these activities, the Department can not assess the efficiency of what it has completed.

- There is no comprehensive project management system for the budgeting, construction, cost control and cost reporting of road projects to ensure that they are completed on schedule and within budget. As a result, the Department does not have the necessary information to manage or report on project progress in a timely manner.

- Individual construction and maintenance projects are not formally evaluated to ensure that the Department's objectives were met. If such information was available, it would be useful in managing future projects.

- The Department does not, nor is it required to, provide adequate information to the Legislature on its roads program. Such information would include the Department's objectives, plans and budgets in comparison to what was actually completed and spent. It would also include information on the condition of the Province's road system, whether the Province's roads are improving or deteriorating, and the cost and implications of deferred maintenance and rehabilitation.

Update

During 1998, we asked the Department of Works, Services and Transportation to inform us as to the progress made on our 1996 recommendations. The Department's response to each of these recommendations is outlined below.

Selection of Road Construction and Road Maintenance Activities

1. Assessing Road System Conditions

1996 Recommendations

The Department should establish a formal program for regularly assessing the road conditions on a systematic and objective basis.

The Department should establish a bridge inspection program that includes objective standards for assessing bridge conditions and ensuring that the bridge information system includes accurate and current information.

Action Taken

The Department indicated that it continues to regularly assess road conditions on an ongoing basis in preparation for recommending through the cabinet process its yearly construction program. This process involves projecting a multi-year capital construction and rehabilitation needs program based on such criteria as road condition, safety, economic impact, road classification and traffic volumes.

The Department also indicated that it has adopted a new Highway Maintenance Management System (HMMS) within the past six months. This new system provides for a more comprehensive management system for monitoring and reporting on the progress of planned maintenance activities. However, front line managers are still empowered to priorize the maintenance activities within their region.

In 1997, the regions along with the Bridge Division combined in a collective effort to inspect all of the bridges throughout the Province. This was categorized as a level two inspection and completely independent from the level one annual inspection performed by maintenance staff. Records of level two bridge inspection reports are currently on file within the region, as well as at the Bridge Office. New database software has been employed at the Bridge Office to compile the complete bridge inventory. Seventy-five percent of last year's inspection reports are entered into the system and the remainder should be completed this fall. This new database which is PC driven will be updated in the regions and submitted to Head Office on a bi-annual basis.

Bridges that are red flagged at a level one or two inspections are subsequently inspected by a Bridge Engineer. Consequently, a list of capital bridge projects are developed and approved through the cabinet process annually.

2. Planning and Priorizing

1996 Recommendation

The Department should develop a strategic positioning for the Province's road system which would address both construction and maintenance activities. These activities should be determined based on an objective process. As a minimum, this process should include the following:

- *determining the physical road standards acceptable to Government;*
- *assessing the physical condition of roads in the Province;*
- *determining how much capital and maintenance work is required to upgrade and maintain the roads at the standards acceptable to Government;*
- *priorizing the capital and maintenance work based on available funding; and*
- *determining the cost and impact of deferring capital and maintenance work, including determining to what extent, if any, roads have deteriorated.*

Action Taken

The Department indicated that maintenance resources continue to be allocated on the basis of road inventory within a region. Maintenance activities are priorized where funding is inadequate and front line managers are empowered to priorize the activities within their region since they are in the best position to make these decisions on a daily basis.

Planning and priorizing is an integral part of the capital road's program as well through the multi-year program identified in item # 1 above.

The Department also indicated that it is also actively pursuing a means of assessing the ramifications of deferred maintenance and the impact that reduced budget has had on the Province's roads. A submission is expected to be ready for cabinet later this fall.

3. Identifying Appropriate Rehabilitation and Maintenance

1996 Recommendations

The Department should co-ordinate and priorize its rehabilitation and maintenance activities.

Information on the long-term costs and effects of deferred rehabilitation and maintenance should be determined to assist the Department in budgeting and funding decisions.

Action Taken

The Department indicated that it is actively pursuing a means of reporting to cabinet the implications of deferred maintenance to the provincial roads as described in item # 2 above.

Project Management

1. Estimating Maintenance Project Costs

1996 Recommendation

The Department should ensure that standards used to estimate the cost of its maintenance activities are realistic and that its highway maintenance management system is used to provide the information required to assess the efficiency of maintenance activities.

Action Taken

The Department indicated that the new and improved HMMS System will reflect more accurate costs associated with maintenance activities. The standards have all been reviewed and updated to reflect current work practices, labour, equipment and material requirements. The system will better enable the Maintenance Division to monitor its maintenance activities through timely activity reporting through the Regional Offices. The new system is in place and will be fully implemented for fiscal year 1999-2000.

2. Awarding of Contracts

1996 Recommendations

The Department should consider that its internal policy with respect to quantity change orders is not consistent with the requirements of the Public Tender Act *and take appropriate action.*

The Department should comply with the Public Tender Act *and ensure change orders are approved by authorized officials.*

Action Taken

The Department indicated that it has made every attempt to comply with the *Public Tender Act* regarding the issuing of change orders and the awarding of contract extension. Department officials are periodically reminded through staff meetings of the requirement of the *Public Tender Act* as it relates to change orders and extensions. As policy, the Department has reviewed and re-established authorization limits for various positions within the Department.

3. Project Monitoring

1996 Recommendations

The Department should enhance its current project management system to include support for cost tracking, forecasting and reporting. The system should provide information on the status of its capital projects including estimated costs, percentage completed, cost incurred to date and estimated cost to complete. The system should be able to report on multi-year projects and indicate whether they are on budget, whether they will be completed as scheduled and provide explanations for any variances.

The Department should review the usefulness of the Highway Maintenance Management System with a view of developing a more comprehensive project management system for monitoring and reporting on the progress of maintenance activities.

Action Taken

The Department indicated that traditionally a TSO Project Management System has been used to track capital expenditure on a project by project basis. However, this system is about to be replaced with an ORACLE system.

The Department also indicated that although the ORACLE system will provide for a more efficient cost accounting and budgeting process, having up to date job costs at its fingertips will still be a problem due to the nature of the on-line system.

To provide more timely cost reporting the Department is investigating the possibility of switching to a PC-based system that can be shared with the regions. This system can be updated on a daily basis and compiled into a provincial report. This project is at the conception stage and will likely take a number of months to implement.

The Department has adopted a new HMMS that will provide for a more comprehensive management system for monitoring and reporting on the progress of maintenance activities.

4. Project Evaluation

1996 Recommendation

The Department should perform comprehensive evaluations on all road projects and accumulate the information in a manner that would facilitate the evaluation of future work.

Action Taken

The Department indicated that it recognizes the importance of documenting the history of projects and is attempting to ensure that adequate explanations are contained in quantity variation documents. These reports are currently being completed at the end of each project and placed in the project file.

The Department also indicated that project experiences are typically discussed at regularly held meetings with regional staff from across the Province. They result in specification changes or changes in the way it tenders work to incorporate lessons learned from past projects. The concept is one of a team approach, so that information is not lost through staff turnovers. In addition, Minutes of Regional Directors and Regional Engineers meetings are kept on file within the Department.

Program Reporting

1996 Recommendation

The Department should prepare an adequate accountability document on a timely basis.

This report should include the Department's strategy on the maintenance, rehabilitation and construction of the Province's roads, what it intends to do annually and over several years, and whether the Department has actually achieved the objectives it set out in previous years' reports. Information should also be provided on individual road projects which are significant. Of particular interest would be information on the Department's assessment of the extent to which required maintenance and rehabilitation has been deferred and the conditions of the Province's roads (e.g. fair, poor, good) and whether these conditions are improving or deteriorating.

Action Taken

The Department indicated that, at present, there are no plans to prepare an accountability document. However, the Department also indicated that it has developed a three-year Business Plan identifying its mandate, strengths and weaknesses, department initiatives and operational objectives for a three year period. It also identifies the Department accomplishments for the past year. However, this is very broad based and does not focus on capital construction and maintenance activities.

Treasury Board Secretariat

4.2.23 Public Sector Restraint Act, 1992 (1994 Annual Report, Part 5.1)

Introduction

In 1994, we conducted an examination of ten Crown agencies and Treasury Board Secretariat to assess compliance with the *Public Sector Restraint Act, 1992*. That review indicated:

- of the ten agencies reviewed, six were found to have one or more instances of noncompliance with the Act;
- Treasury Board Secretariat did not comply with sections 5(6) and (7) of the Act which required that it recalculate the pay scales and monetary benefits affected by the Act and publish these in The Newfoundland Gazette;
- there was no monitoring performed by Treasury Board Secretariat to evaluate or ensure compliance with the Act; and
- in all of the agencies reviewed, instances were noted whereby compensation practices were inconsistent with those of Government.

Update

Our current update relates only to the final finding above, as the other findings relating to the legislation are no longer relevant.

Inconsistent Compensation Practices

Two recommendations were made in the area of inconsistent compensation practices. Our first recommendation was that Government should address the inconsistencies in personnel management policies and procedures between Government and its various agencies. This would be in keeping with Minute of Council 94-0520 which directed Treasury Board to advise all boards, agencies and commissions that compliance in all respects with the compensation standards which have been established for Government departments, is mandatory. Our second recommendation was that the boards, agencies and commissions to which the compensation standards of Government are to apply should be specifically named by order of the Lieutenant-Governor in Council.

In response to our recommendations, the Secretariat advised, in a 1996 update, that information would be collected from all agencies to address the degree of inconsistency and a report would be submitted to Cabinet. We noted in this report last year that this was not done. This year, the Secretariat did not indicate in their response to a request for an update whether this has been done.

In August 1996, the Secretariat released a new Compensation Policies and Procedures Manual to all Deputy Ministers and heads of boards, agencies and commissions. We noted in last years Annual Report that while the Manual provides direction in specific areas, the Secretariat has not indicated to the Heads of boards, agencies and commissions that compliance with the compensation standards established for Government departments is mandatory. This year, the Secretariat did not indicate in their response to our request for an update whether this has been done.

The Secretariat advised in our 1997 update that, as part of the Public Sector Reform initiative, a task force has been established to assess the suitability of the various authority and accountability structures in place for Agencies and Boards. In our current update, the Secretariat advised that a "Working Group on Board and Agency Accountability" has been established as recommended by the task force.

This is the third year we have provided an update related to our 1994 review of compliance with the *Public Sector Restraint Act, 1992*. In the following year, we will evaluate the suitability of providing further updates related only to the Secretariat's efforts in reaching consistency in compensation practices as issues relating to the Act are no longer pertinent.

Department of Tourism, Culture and Recreation

4.2.24 Marble Mountain Development Corporation
(1995 Annual Report, Part 3.1)

Introduction

The Marble Mountain Development Corporation is a "Non-Profit Development Corporation" incorporated under the laws of Newfoundland by the Province of Newfoundland. Its affairs are managed by a Board of Directors appointed by the Lieutenant-Governor in Council. The principal activity of the Corporation is managing and controlling the development of the Marble Mountain Development area.

In 1995, we made recommendations to improve the Corporation's management practices, its compliance with legislation and its Board governance. In our 1997 Annual Report, we updated our comments and recommendations. We reported that many of our recommendations had not been addressed.

Update

The Corporation has taken some action on some of our outstanding recommendations as reported in our 1997 follow-up review; however, some still need to be addressed as outlined below:

- The Corporation's By-laws have still not been updated given the changes to its organization and mandate over the past two years. Notwithstanding this, the Corporation did not submit its 1998-99 budget to the Minister by 31 December 1997 nor did they submit a 1997-98 annual report to the Minister by 30 September 1998. A copy of the Corporation's audited financial statements for the year ended 30 April 1998 were submitted to the Department on 29 September 1998.
- Board members have discussed their role and responsibilities at certain meetings; however, the Corporation has not developed a self-evaluation process to assess how the Board and its members are fulfilling their roles and responsibilities, nor have they developed a Board member profile.
- The Corporation still maintains its *Master Plan Update* as its long term development planning document. However, the *Master Plan Update* has not been updated to reflect realistic skier visit statistics. Actual skier visits for the 1997-98 ski season were 54,534, while the *Master Plan Update* projected 114,455 skier visits.
- Some policies and procedures regarding purchasing and human resources have been documented in the Corporation's Operations Manual; however, this manual still does not document budgeting and financial reporting policies and procedures.
- Position descriptions have not yet been documented for Corporation staff nor has a policy pertaining to annual performance evaluations been established.
- Financial reports are submitted to the Board each meeting for review; however, these reports do not include budget information or written variance analysis.

4.2.25 Newfoundland and Labrador Arts Council
(1995 Annual Report, Part 3.2)

Introduction

The Newfoundland and Labrador Arts Council was established in 1980 under the *Arts Council Act*. Its mandate is to foster and promote the study, enjoyment and production of works in the arts of the Province. The Council reports to the Minister of Tourism, Culture and Recreation and for 1998 it had an annual operating budget of approximately $1.0 million.

In carrying out its mandate, the Council provides funding to eligible individuals and organizations through the administration of a sustaining grant program and a project grant program. Sustaining grants provide professional arts organizations with assistance toward their administrative costs. Project grants support costs relating to production, operations, travel and study for a specific project to be undertaken by an artist, arts group or organization. The level of funding provided by these two grant programs has remained relatively constant over the past three years and has amounted to approximately $1.1 million.

In 1995, we concluded that many aspects of the Council's administration of the grant programs were not adequate. We made recommendations at that time to assist the Council in administering its grants programs.

In 1997, the Council had taken some action on our 1995 recommendations. Recommendations relating to areas of program evaluation, and application forms and guidelines were addressed.

Update

The Council has taken some action in 1998 on our recommendations made in 1995. Recommendations relating to application forms and guidelines have been fully implemented and other areas are being addressed with staff additions. With respect to our other recommendations, the status of the actions taken is outlined as follows:

Program Objectives

1995 Recommendation

The Council should ensure that performance indicators are established for all grant programs.

Action Taken

The Council indicated that it has not developed specific performance indicators for the grant programs and, as previously indicated, staff resources do not allow for such an undertaking. The Council indicated that its mandate is to foster and promote the study, enjoyment and production of works in the arts of the Province. The level of arts activity which the Council manages to support through its programs, the success of these arts activities, and the growth and development evident in the cultural sector, seem to indicate that Council's programs have resulted in significant enhancement of the arts community over the past 15 years.

Eligibility and Selection Criteria

1995 Recommendation

The Council should ensure that all eligibility criteria are clearly defined.

Action Taken

After recent changes to eligibility and selection criteria, the Council believes that criteria are now clearly defined and it does not agree with our 1997 comment that it is still difficult to assess an application against the criteria in a consistent manner. The Council indicated that earned income for not-for-profit companies can be inconsistent from year to year. For that reason, a policy which allows for a comparative assessment, based on peer activity, average performance over a three year period and artistic achievement works well for the peer assessment committees.

Review and Approval of Applications

1995 Recommendations

The Council should ensure applicants receiving grants meet established eligibility and selection criteria.

The Council should ensure that all files contain sufficient documentation to support funding decisions and to address any concerns identified by the independent evaluators.

Action Taken

The Council has indicated that its Program Officer will establish an applicant's eligibility with certainty. As well, the Program Officer will be responsible to ensure that the selection criteria is adhered to.

The Council indicated that it relies on the the expertise of committee members in evaluating and recommending applicants. Committee members arrive at a decision based on discussion and comparison of applicants and, as these members are volunteers, written assessments cannot be demanded. The Council has decided to move toward a separate peer jury process and it is their hope that the members of the peer committees will be paid an honorarium for their time and expertise. The Council indicated that it is piloting this process during the current grant session and, if funds are found to maintain this system, then the peer jury members will be expected to complete written assessments.

Monitoring of Grants

1995 Recommendation

The Council should ensure that monitoring of approved projects is performed on a timely basis and that grant recipients comply with all terms and conditions attached to the grant.

Action Taken

The Council indicated that the addition of a Program Officer to its staff will greatly improve the monitoring process. The Council also indicated, however, that it is still not feasible to monitor the approximately 200 projects supported annually. The Council is well informed of an applicant's progress toward a project's completion through contact with the applicant and attending many of the sponsored events. In addition, if applicants do not submit final reports on the projects, they are ineligible for further grants from the Council.

Program Evaluation

1995 Recommendation

The Council should ensure that grant programs are evaluated on a regular basis to ensure that program objectives are being achieved.

Action Taken

The Council indicated that recent changes in the Project Grant Program have improved the assessment process, clarified criteria, reduced Council's administrative costs, simplified and improved the process for artists and arts organizations, and reduced travel and assessment time required by the volunteer Council.

Reporting

1995 Recommendation

The Council should prepare and submit to the House of Assembly, through the Minister of Tourism, Culture and Recreation, annual reports on its activities, including a review of the effectiveness of the grant programs.

Action Taken

The Council has not prepared and submitted an annual report to the Minister of Tourism, Culture and Recreation. The Council indicated that it recognizes the benefits of annual reporting and that it will endeavour to prepare annual reports.

4.2.26 The John Cabot (1997) 500th Anniversary Corporation (1995 Annual Report, Part 3.3)

Introduction

The John Cabot (1997) 500th Anniversary Corporation was incorporated under the *Corporations Act* on 22 May 1992. It was established for planning and organizing the celebrations to recognize the 500th anniversary of John Cabot's voyage to Newfoundland. The Board of Directors of the Corporation was appointed by the Lieutenant-Governor in Council.

It was indicated in our 1995 Report to the House of Assembly that we attempted to conduct an audit of the Corporation in April 1995 but were informed by the Board that our review would be limited to the financial records. As a result of this restriction, we were not able to commence our audit at that time.

Update

On 3 November 1995, the Minister of Tourism, Culture and Recreation announced that the Corporation would be immediately dissolved. Subsequent to this announcement, the Board of Directors was dissolved and the majority of the Corporation's staff were laid off. In January 1996, we informed the Deputy Minister of Tourism, Culture and Recreation that we would be commencing the audit of the Corporation. In March 1997, we submitted our report on The John Cabot (1997) 500th Anniversary Corporation to the House of Assembly.

During 1998, we completed a follow up review of The John Cabot (1997) 500th Anniversary Corporation. The results of our review are outlined in part 3.25 of this report.

Department of Human Resources and Employment

4.2.27 Home Support Services Program (1996 Annual Report, Part 3.1)

Introduction

The Home Support Services (Enriched Needs) Program, which began in July 1985, was developed to enable persons with disabilities to live in their own homes for as long as possible and to facilitate the process of deinstitutionalization of persons with physical and mental disabilities. The definition of a person with a disability, for the purposes of this Program, is a person who requires supportive services to aid independent living. An individual cannot receive home support services because of a disability alone; that is, a person may have a severe disability and may be able to function independently without having the need to purchase ongoing supportive services.

Expenditures for the Home Support Services Program have increased significantly since 1985-86 when it was first implemented. It has increased from $350,000 in 1985-86 serving, on average, 36 clients per month to $30.9 million in 1995-96 serving, on average 1,775 clients per month. The average cost of providing home support services to individuals in 1995-96 was $1,450. Actual annual costs per individual ranged from $10 to $150,000.

Although the departments of Health and Human Resources and Employment have increased their home support services budgets each year since the Program's inception in 1985-86, additional funding has always been required and has been provided through special warrants and through transfers of funds from other departmental programs.

In 1995, we reported several findings and recommendations regarding our review of the Program. The objective of our review was to determine reasons for the significant increases in Program expenditures since its inception. In particular, we reviewed department files to determine if clients had been assessed for eligibility and had met eligibility requirements, and if needs assessments had been performed. In addition, we prepared statistical information on the number of individuals served, the cost by recipient group, the cost by individual per month per recipient group and regional cost comparisons. We also reviewed the policies and procedures used in administering the Program.

Update

During 1998, we asked the Department of Human Resources and Employment to inform us as to the progress made on our 1995 recommendations. The Department's response to these recommendations is outlined below.

Eligibility of Individuals and Payment for Services

1995 Recommendations

The departments of Health and Social Services should develop a standardized assessment tool to be used in determining the appropriate level of care to be provided to all enriched needs clients. Once developed, all home support clients should be reassessed to ensure consistency in the determination of home support hours required.

The departments should obtain adequate support for assets and home support requirements in all cases and take this into consideration when determining the amount of financial assistance to be provided.

The review of home support client circumstances should be completed on a semi-annual basis as required by departmental policy.

The Department should comply with its policy relating to family responsibilities and determine whether families can contribute to the care of the applicant.

All information used in determining the level of home support services approved should be appropriately supported and accurately calculated.

All payments made for home support services should be supported by complete and accurate documentation.

The Department should comply with its Regulations.

The Department should re-examine its policy which disallows cheques to be issued for amounts in excess of $1,250.

Action Taken

The Department indicated that the assessment tool that was being field tested during 1996-97 proved to be valid and reliable and has been implemented for all new approvals and/or reviews.

The Department also indicated that all requests for payments of home support services are now processed through pay units that have been established in the Department's district offices. It is the responsibility of these pay units to ensure that the appropriate documentation is on file, payments are in accordance with policies and rates and that calculations are accurate.

Expenditure Control

Action Taken

The Department indicated that the $3,000 per month home support ceiling has been raised to $3,400 per month. All cases in excess of $3,000 that were referred to as being reviewed in the 1996-97 report have been completed and where possible reductions have been effected.

The Department also indicated that as a general principle, funds are no longer provided to individuals or families to enable purchases of administrative assistance (i.e. payroll, bookkeeping). There does however still exist a minimal number of exceptional cases where funding is approved by the Director.

4.2.28 Social Assistance Overpayments (1996 Annual Report, Part 3.2)

Introduction

The Department of Human Resources and Employment provides social assistance to individuals and families who meet an established needs test. Social assistance is paid in accordance with the *Social Assistance Act*.

Each year, overpayments of social assistance are made to some recipients. These overpayments result from the payment of assistance which exceeds that provided under the Act. Examples of situations that give rise to these overpayments include receiving social assistance and unemployment insurance benefits in the same period, obtaining social assistance under false pretences, and failure to report income while in receipt of social assistance. The Department may also issue additional social assistance to recipients where, in the opinion of an officer of the Department, it is necessary to maintain the recipient. Examples of this type of overpayment are payments of social assistance pending receipt of unemployment insurance benefits and payment of rental damage deposits.

Overpayments of social assistance are recovered from existing social assistance clients through deductions in their current benefits. In the case of former clients, overpayments are recovered directly from the clients. In addition, the Department may recover amounts owing by either an interception of payments by Government to the former clients or through legal action.

Figure 1 shows the overpayments made by the Department for the five year period 1994 to 1998 including payments on account, amounts written off and amounts owing.

Figure 1

Department of Human Resources and Employment
Social Assistance Overpayments
Years Ended 31 March
($ Millions)

	1994	1995	1996	1997	1998	Total
Accounts Receivable Opening Balance	$16.1	$19.1	$21.8	$19.9	$22.4	
New Overpayments	7.8	8.5	6.7	7.3	7.5	37.8
Payments on Account	2.3	2.8	2.8	2.2	2.0	12.1
Recovery from Social Assistance Recipients	2.3	2.6	3.0	2.6	3.1	13.6
Amounts Written Off	.2	.4	2.8	0	.2	3.6
Accounts Receivable Closing Balance	$19.1	$21.8	$19.9	$22.4	$24.6	
Social Assistance Benefits Paid	$198.0	$226.4	$244.9	$243.3	$252.0	

As can be seen from this figure, as social assistance benefits paid have increased, so have overpayments. One exception to this is the decrease in new overpayments in the 1995-96 fiscal year. Prior to 1 April 1995, the Department paid light and power arrears on behalf of recipients to prevent disconnection of electrical service. The amounts paid were considered overpayments and were recorded as accounts receivable from affected recipients. These payments averaged $1.7 million annually in each of the four years prior to 1 April 1995. Subsequent to 1 April 1995, the Department ceased making these payments. The reduction in overpayments in the 1995-96 fiscal year compared to prior years was mainly due to this change.

As indicated in Figure 1, the total social assistance overpayments receivable as at 31 March 1998 was approximately $24.6 million. Of this amount, $15.8 million has been owed for two years or more, $4.6 million has been owed for one to two years and $4.2 million has been owed for one year or less. Figure 2 shows the various reasons for the overpayments as indicated by the Department.

Figure 2

Department of Human Resources and Employment
Social Assistance Overpayments Receivable
Summarized by Reason Overpayment Occurred
31 March

Reason for Overpayment	1996	1998
Receiving social assistance at the same time as receiving Unemployment Insurance Benefits, Canada Pension Plan payments or other program benefits.	$6,100,000	$6,996,000
Receiving social assistance under false pretences such as unreported income while in receipt of social assistance or living with an individual not receiving social assistance.	5,200,000	8,149,000
Overpayments resulting from payment of security deposits, light and power arrears and other.	4,700,000	4,243,000
Other reasons (Department does not provide detailed explanation).	3,000,000	4,317,000
Errors committed by employees.	600,000	485,000
Miscellaneous	300,000	410,000
Total	$19,900,000	$24,600,000

The category above described as "Receiving social assistance at the same time as receiving Unemployment Insurance Benefits, Canada Pension Plan payments or other program benefits" includes, in addition to improperly receiving income from these sources, situations in which the Department will issue social assistance pending receipt of Unemployment Insurance Benefits, Canada Pension Plan payments or other program benefits. These are in effect "loans".

In 1996, we reviewed social assistance overpayments to determine the nature of social assistance overpayments, identify the collection procedures used to recover these overpayments, and determine whether these procedures were effective. Our review indicated that the department did not actively pursue collections on a consistent basis and that the majority of the overpayments accounts receivable balance was uncollectible.

In response to our 1996 report, the Department disagreed with our findings and stated that it had made major improvements in the collection of outstanding accounts as well as ensuring that uncollectible accounts are written off when required.

Update

Our follow-up review indicated that the social assistance overpayments accounts receivable balance has increased to $24.6 million in 1998 from $19.9 million in 1996 when we last conducted a review. The net $4.7 million increase is largely the result of new overpayments made due to recipients obtaining social assistance under false pretenses, receiving social assistance at the same time as receiving Employment Insurance Benefits, Canada Pension Plan or other program benefits and other reasons. We note that as a result of investigations carried out by the Department's staff, $4.1 million in overpayments were identified and added to the accounts.

The Department informed us that it has increased staff to initiate as many accounts as possible for collection. The Department indicated that it has since added 5,200 accounts to the 6,622 in collection as at 31 March 1997. The number in collection as at 31 March 1998 was 9,470 after deducting 2,352 accounts which had either been collected or written off. The 9,470 accounts in collection represents 60% of the 15,897 accounts receivable accounts pertaining to former clients no longer receiving social assistance.

While the Department has made progress in addressing our concerns, we note that all accounts of former clients should be put into collection. We acknowledge that further increases will occur due to detective measures used by the Department, however, every effort should be made stem the increase in social assistance accounts receivable that are preventable.

Department of Industry, Trade and Technology

4.2.29 The Economic Diversification and Growth Enterprises Act (1996 Annual Report, Part 3.3)

Introduction

A Strategic Economic Plan for Newfoundland and Labrador was released in June 1992. It was indicated in the Plan that Government must create the proper economic and social environment for a competitive private sector. One initiative toward the creation of such an environment is the *Economic Diversification and Growth Enterprises Act* which became effective on 1 January 1995. Under this Act, the Economic Diversification and Growth Enterprises (EDGE) program provides significant tax incentives to new and expanding corporations that meet a number of qualifying criteria. The Act is administered by the Department of Industry, Trade and Technology.

The EDGE program is complimentary to other support and development programs currently available to businesses in the province. The underlying objective of these programs is to make the Province one of the most attractive investment locations in North America. The intent of the EDGE legislation is to encourage private sector job creation and diversification of the provincial economy.

Corporations must apply to the Department for EDGE designation. Each application is evaluated by a board of public and private sector representatives which makes recommendations respecting the application to the Lieutenant-Governor in Council. The Board is currently comprised of six members, three of whom represent the private sector. The Department has stated that 144 EDGE applications had been received by the Department as at 14 October 1998. Cabinet has approved 66 of these applications. Of the remaining 78 applications, 55 have been rejected, 3 have been deferred and 20 others have had their EDGE status revoked. The corporations that meet the criteria are designated as EDGE Corporations.

The Department estimates that for the 66 applications approved, the EDGE program will create 2,452 permanent jobs through the investment of $164 million in capital.

In 1996, we conducted a review which provided for an examination of legislation and administrative procedures respecting the EDGE program. We made specific recommendations relating to the review of legislation, the compliance with legislation and the implementation of policies and procedures. Our review indicated that:

- several sections of the Act are ambiguous and the Act does not provide remedies if an EDGE Corporation fails to comply with the terms of its agreement with the Province,
- the Department and the Board did not fully comply with the Act, and
- administrative procedures are not adequate to deliver the EDGE program.

Update

Since our 1996 review, the Department has taken action with respect to some of our recommendations; however, the action taken did not address all of our concerns.

Recommendations for which little or no action has been taken are outlined below:

Review and Evaluation of the Act

Our recommendation with regard to the review and evaluation of the Act was that the Department should review the Act within the context our findings and take appropriate action. In response to our recommendation, the Department indicated that it had already identified issues similar to our findings and that these issues were incorporated into a discussion paper for submission to Cabinet. Our follow-up review indicated that the Department has proposed certain amendments to the Act based on the recommendations of a consultant it hired to evaluate the EDGE program. Our review of the proposed amendments to the Act, the consultants report and the cabinet discussion paper indicated that the Department failed to address our findings in the following areas:

- certain terms under Section 2 of the Act, such as *"permanent jobs"*, *"capital"* and *"substantial net economic benefit"* are not defined,
- certain qualifying criteria under Section 3 of the Act, such as engaging in *"...business activities or undertakings that have a substantial net economic benefit to the province"* are difficult to measure,
- the lack of guidance in the Act in the event that an EDGE Corporation ceased to comply with qualifying criteria, and
- the lack of guidance in the Act in the event that an EDGE Corporation decided to revoke its EDGE status.

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The consultant recommended in their March 1997 report that *"recommendations of the Auditor General in terms of review and evaluation of the Act should be implemented"*. The Department has provided no documented evidence that it performed a thorough review and evaluation of the Act as recommended.

Compliance with the EDGE Act

Our recommendation with regard to compliance with the *EDGE Act* was that the Department should comply with the Act. In response to our recommendation, the Department indicated, in 1996, that it was experiencing growing pains in its first year delivery of the EDGE program, but, that it was committed to doing everything within its power to ensure compliance with the EDGE legislation.

Our follow-up review indicated that the Department has since documented certain monitoring procedures to help ensure compliance with the Act. Our review of these procedures indicated that they are not sufficiently detailed to ensure compliance with Sections 3 and 5 of the Act. For example, our review of the procedures manual indicated that it does not define what is considered a *"substantial net economic benefit"*. The procedures manual states only that *"A copy of the business plan is submitted to the Economic Analyses Division, Department of Finance for their analysis"*.

Administration of the EDGE Program

1. Application Receipt, Evaluation and Approval

Our recommendation with regard to application receipt, evaluation and approval was that procedures should be implemented to ensure all information is received and guidelines should be established to ensure all applications are evaluated on a consistent basis.

Our follow-up review indicated that the Department still has not documented procedures in assessing whether:

- granting EDGE status would confer a direct competitive advantage over other businesses already established,
- in ensuring that the business venture is consistent with EDGE objectives, and
- in determining what constitutes a "substantial" net economic benefit.

Review of documented procedures regarding the receipt and evaluation of information under Sections 3 and 5 of the Act indicated that the procedures do not adequately detail exactly how this information should be analysed and what type of conclusions should be drawn.

2. Program Monitoring, Evaluation and Reporting

We recommended that procedures be implemented to ensure adequate monitoring and reporting of the EDGE program. Our recommendation resulted from the fact the Department had not identified how it was going to determine if the program was successful and a process had not been established towards proper accountability reporting. Our review of the Department's procedures manual indicated that while there are procedures for the collection of data from EDGE corporations, there are no documented procedures detailing how information is to be monitored, evaluated and reported.

The Department has indicated that it looks to the level of interest in the EDGE program and the number of legitimate business proposals submitted to the EDGE Board as indicators of success. The Department has also indicated that it plans to hire a consultant in the future to provide a more formal evaluation of the EDGE program.

4.2.30 The Canada-Newfoundland Strategic Investment and Industrial Development Cooperation Agreement (1996 Annual Report, Part 3.4)

Introduction

The Canada-Newfoundland Strategic Investment and Industrial Development Cooperation Agreement (SIID Agreement) was signed on 26 June 1992. The Agreement is a subsidiary agreement to the Canada-Newfoundland Economic and Regional Development Agreement of 4 May 1984.

The duration of the Agreement is from 26 June 1992 to 31 March 1997. The cost of the program is $43 million of which $12.3 million is provincial and the remaining $30.7 million is federal. The amount of funding available for completion of programs, after an allocation for administrative costs of $6.2 million, is $36.8 million. The Agreement is administered by a Management Committee comprised of federal and provincial representatives appointed by the respective Ministers. This Committee established guidelines and eligibility criteria to determine whether applicants are eligible for funding under the program.

Projects must be approved by 31 March 1997, completed by 31 March 1998 and claims must be received by 31 March 1998.

According to the Department, the Committee approved 531 projects for 283 entities to 31 March 1997. Under the current arrangement, the Atlantic Canada Opportunities Agency processes payments for claims under the Agreement and the Province reimburses them for the Provincial share of the program. The Department indicated that, as at 31 March 1998, funding related expenditures under the Agreement totalled approximately $38.2 million, with a further $2.9 million incurred for administration of the Agreement. The total paid by the Department for their share of claim related expenditures under the Agreement was approximately $11.7 million, with a further $216,500 incurred for administration of the Agreement.

In 1996, we conducted a review which provided for the examination of the Department's compliance with the Agreement. Our review indicated that:

- the Agreement was not properly administered as funding of programs was not adequately controlled, managed or monitored in accordance with Agreement requirements,
- approved projects did not appear to be in compliance with the general overriding guidelines or the specific eligibility criteria,
- projects approved under the Agreement are not adequately monitored,
- no comprehensive evaluation of the Agreement was planned, and
- there is inadequate reporting on the discharge of accountability to the House of Assembly.

In response to our 1996 report, the Department disagreed with our findings and recommendations, except in the area of project monitoring where it agreed that monitoring activity could be enhanced.

Update

The Department indicated that the deadline for the approval of projects under the SIID Agreement expired 31 March 1997, and that there was not a great deal of time in which to address any of our concerns. Although our follow-up review indicated that the Department addressed none of our concerns in its administration of the SIID Agreement since our 1996 report, the Department maintains that they have incorporated procedures to alleviate certain concerns noted in our 1996 report, into the administration of the Comprehensive Economic Development Agreement (CEDA). The Department has indicated that our concerns noted in the 1996 review regarding the preparation of annual workplans, the compliance with provisions of contracts and the preparation of financial information, are being addressed in the administration of CEDA.

The SIID Agreement concluded 31 March 1998 as that was the final date for submission of claims. We feel the Department reacted appropriately to our recommendations regarding delivery of the program by the changes it planned to make in subsequent agreements it enters into. We will therefore limit future monitoring of this item to the Department's responsibility for post-agreement evaluating and reporting which is required by the Agreement.

4.2.31 The Privatization of Newfoundland Hardwoods Limited (1996 Annual Report, Part 3.5)

Introduction

In September 1994, Cabinet directed the Department of Industry, Trade and Technology to pursue the privatization of Newfoundland Hardwoods Limited (the Corporation). The privatization culminated with the sale of the asphalt operations in August 1995 and the sale of the pole and timber treatment operations in September 1995.

In our 1996 Annual Report to the House of Assembly, we reported on the results of our review of the privatization of the Corporation. This review disclosed that although the assets of the Corporation were sold in August and September 1995, as of October 1996, the transactions had yet to be finalized, audited financial statements for the year ended 31 March 1996 had not been released, and the Province had only received $5.6 million of the $7.0 million in proceeds.

In our 1997 Annual Report to the House of Assembly, we again reported that the issues noted in the previous paragraph were still outstanding. In addition, [illegible] consultant which had originally been engaged in December 1994 to assist in the privatization process was still engaged in November 1997, although the Corporation was sold in 1995.

Update

During 1998 we completed a follow-up review of the privatization of Newfoundland Hardwoods Limited. The results of our review are outlined in Part 3.19 of this report.

4.2.32 Enterprise Newfoundland and Labrador Corporation (1996 Report, Part 3.6)

Introduction

The *Enterprise Newfoundland and Labrador Act* was assented to on 7 December 1990. It established, effective 1 January 1991, the Enterprise Newfoundland and Labrador Corporation. The Corporation is an amalgamation of the Newfoundland and Labrador Development Corporation and certain divisions of the former Department of Development. During the 1995-96 fiscal year the Corporation was accountable to the Minister of Industry, Trade and Technology. Commencing in the 1996-97 fiscal year, responsibility for corporation activities has been transferred to the new Department of Development and Rural Renewal. At the time of our review, the task of integrating the operations of the Corporation with those of the Department was ongoing.

The Corporation's mandate is to work with the people of the Province to promote and encourage entrepreneurship, self-reliance and economic development through a decentralized system of technical, research and information services and business support. The Corporation has five regional offices: Avalon, Eastern, Central, Western and Labrador.

These offices, working in conjunction with the Regional Economic Development Boards established in the Province's economic zones, are responsible for developing and implementing plans and strategies for the economic development of each region. Each regional office is responsible for a number of areas including administration of the loan and equity investment portfolios, fixed asset control, human resources management, and preparation, monitoring and control of the budget.

The Corporation's audited financial statements for the year ended 31 March 1997 disclosed loan and equity investment portfolio balances as indicated in Figure 2. Audited financial statements for the Corporation for the year ended 31 March 1998 were not available at the time of our update.

Figure 1

Enterprise Newfoundland and Labrador Corporation
Loans and Equity Investments
31 March 1997

	Balance	Allowance	Net
Loans Receivable	$62,179,859	$33,267,948	$28,911,911
Equity Investments	$17,368,492	13,548,131	3,820,361
Total	$79,548,351	$46,816,079	$32,732,272

Source: Audited Financial Statements

In 1996, we conducted a review of the Corporation's loan and equity investment portfolios to assess whether the Corporation had made changes in its loan and equity investment systems since a 1992 review, and to determine the adequacy of current monitoring and collection activities and practices relating to the Corporation's loan and equity investment portfolios. Our review indicated that:

- formal procedures relating to the management of loan and equity investments are not being compiled consistently,
- monitoring and collection activities and practices relating to the Corporation's loan and equity investment portfolios are deficient and require improvement, and
- the Corporation did not have adequate information available on the value of its loan and equity investment portfolios to ensure the timely submission of its financial statements to the Minister.

Update

Since our 1996 review, the Department has taken action with respect to some of our recommendations; however, the action taken did not address all of our concerns.

Recommendations for which little or no action has been taken are outlined below.

Monitoring of Loans and Equity Investments

Our recommendations regarding monitoring of loans and equity investments related to documentation of personal contact with clients, gathering, reporting and evaluation of information related to collection actions and analysis of clients' annual financial statements.

We reported that the client files we examined did not always contain evidence that regular contact was made with clients in accordance with corporate policy. In response to our recommendation to address this problem, the Department indicated that it would develop systems for personal contact to ensure compliance with the corporations personal contact policy. The Department now reports a system has been developed and is undergoing testing. In addition, staff have been recruited and assigned account administration responsibilities to ensure that aftercare activity is undertaken in accordance with need and established policy.

Our report also, indicated that monitoring procedures were not adequate in that information is not provided on specific collection actions. In response to our recommendation that a system be implemented to gather, report and evaluate collection information, the Department indicated that the Portfolio Management Division would develop the necessary systems. In our follow-up, the Department reports that they are in the process of developing a system to assist regions with the accountability for addressing delinquency problems.

Finally, we reported that clients did not submit, or submit on a timely basis, annual financial statements as required and that corporate-wide requirements did not exist with respect to review of submitted financial statements. In response to our recommendation, that procedures be developed to ensure all financial statements are submitted by clients as required, and that financial statements are analysed in sufficient detail to identify potential problems that have to be addressed, the Department indicated that it intended to do more complete formal reviews of individual financial statements on a regular basis. Our follow-up review indicated that the Department does not have a monitoring system in place to ensure that all financial statements are received and analysed on a timely basis. However, the Department maintains that it is placing greater emphasis on client aftercare services generally, which includes formal reviews of individual financial statements on a regular basis.

Collection and Valuation of Loans and Equity Investments

We reported individual instances where security for loans was not sufficient to cover the balance of amounts owed to the Corporation at the time the loans went into default. As a result of this finding, we recommended security should be maintained for all loans as required by policy. The Department indicated then that the Corporation is a lender of last resort and did not consider itself a secure lender in all cases and occasionally security trade-offs were made in the public interest for economically justifiable reasons. Nevertheless, the Department also indicated that it would be reviewing its policies to ensure they adequately protect the public interest while allowing the Department to achieve its business development mandate. In our follow-up review, the Department indicated that it remains committed to maintaining security arrangements as deemed appropriate on a case by case basis.

Department of Health and Community Services

4.2.33 Western Memorial Hospital Corporation (1996 Annual Report, Part 3.7)

Introduction

In 1996, we performed a review of the Western Memorial Hospital Corporation. Our review was directed primarily to those systems and transactions related to management practices, which included budgeting, financial reporting, utilization of resources and compliance with the *Hospitals Act*, purchasing and human resources.

In 1996, we concluded that the Western Memorial Hospital Corporation had significant weaknesses in all areas reviewed. More specifically, management practices were inadequate with regards to financial monitoring, budgeting, receivable collections, safeguarding of assets, and compliance with legislation. Purchasing practices were inadequate, specifically, the *Public Tender Act* was not being complied with, personal charges were being applied to corporate credit cards, employee benefits were in excess of Government guidelines and inventory controls were inadequate. In addition, human resource practices required improvement as competition files were not always maintained, performance appraisals were not always performed, and controls over the monitoring and approval of employee leave and overtime were weak.

Update

Effective 1 January 1996, the Western Memorial Hospital Corporation, along with five other health care institutions in the region, formed the Western Health Care Corporation (the Corporation). The Corporation is responsible for the management and control of operations of acute and long term care facilities in the western region of the province.

Since our review in 1996, the Corporation has taken some actions regarding some of our recommendations; however, some issues are still unresolved. The following provides an update on our 1996 recommendations:

Financial Position

1996 Recommendations

The practice of providing loans and advances to staff should be discontinued.

Policies on billings and collection of accounts receivable should be revised and accounts should be collected on a timely basis.

Action Taken

The practice of providing loans and advances to employees has been discontinued, except for three exceptions. The Corporation provides loans to employees under their Employee Assistance Program upon recommendation of a financial councillor and pre-established schedules for payroll deductions. The Board has authorized the executive of the Corporation to provide up to $200,000 in bursaries outstanding at any point in time to attract physicians to the area. Also, due to the amalgamation of several former boards, the Corporation, with the approval of Treasury Board, entered into a transition agreement with the various unions authorizing advanced pay to employees in order to align pay periods. As at 31 March 1998, the Corporation was owed $873,000 in employee pay and travel advances.

As at 31 March 1998, the Corporation reported patient receivables of approximately $1.3 million, with $589,000 or 45% of the total being doubtful. Since our review, the patient receivable balance for the Western Memorial Hospital Corporation, as reported in our 1996 Annual Report, declined from $1.2 million to $916,000 as at 31 March 1998 while accounts over 151 days declined by 74%.

A new policy has recently been adopted which will see increased efforts to collect on accounts, as well as automatic referrals to a collection agency after two written and two attempted telephone contacts (approximately 120 days after initial issuance of the bill). Also, the installation of point of sale machines within larger sites has began to enable clients more options to settle their accounts, i.e. Interac and credit cards.

Monitoring and Control of Financial Performance

1996 Recommendation

Revenue and expenditure reports should be modified to ensure they provide information to properly monitor financial operations.

Action Taken

The Corporation reported operating deficits of $4.4 million and $4.7 million for the year ended 31 March 1998 and 1997 respectively, excluding non-cash items such as severance accruals and depreciation. This poor financial performance has led to an increase in the Corporation's bank indebtedness from $8.0 million as at 31 March 1996 to $14.8 million as at 31 March 1998. As at 31 March 1998, the Corporation reported a negative working capital of $17.1 million, excluding accrued vacation pay of $3.2 million. This is money which the Corporation will have to fund from future revenues.

The Corporation, in conjunction with the Department of Health and Community Services, is determining the most appropriate course of action to reduce the magnitude of the bank indebtedness. The Corporation has initiated measures to reduce the cost of further financing by means of banker's acceptances which is expected to reduce financing cost by $70,000 annually.

The Corporation has also established a budgeting department whose primary responsibilities will be the preparation of annual budgets, provision of consulting services to department heads and the investigation of significant variances from budget.

The Corporation prepares monthly detailed revenue and expenditure financial reports for each department; however, the Accounting Manager must manually transfer this information to a summary sheet for each site. Currently there is no standardized reporting format from the information system which would allow a more timely distribution of reports; however, in conjunction with the Department of Health and Community Services, the Corporation is exploring the opportunity of purchasing a new computerized information system. Due to the extensive amount of time of manual preparation, reports are usually issued by the 25th day of the following month. A number of managers have expressed difficulty in the interpretation of the financial reports, and as a result, the Corporation is preparing to present a budget and financial analysis education session to staff.

To date the majority of activity with regards to addressing variances has been to conduct one on one meetings with the applicable staff in an effort to ascertain the cause of the variances. The Corporation is to begin a formalized preliminary process of reporting written variances to the Finance Committee and the Board in December 1998.

Utilization of Resources

1996 Recommendation

The Board should continue to monitor its utilization of resources and seek explanation for variances.

Action Taken

The Corporation continues to record and monitor its utilization of resources. The Corporation has reduced the number of acute care beds in the region from 323 beds in 1994-95 to 302 beds in 1997-98. As expected with the decline in the number of beds, the Corporation experienced an increase in its bed occupancy rate from 81.4% in 1994-95 to 84.0% in 1997-98. The Corporation has also experienced an increase in the acuity level of patients as evidenced by the increase in the average length of stay, from 7.1 days in 1994-95 to 7.5 days in 1997-98.

Capital Assets

1996 Recommendations

The Board should continue its process of identifying and recording its capital assets.

The Board should determine the contribution from or cost of each of its housing properties.

Action Taken

The Corporation still does not maintain a formal capital asset ledger and annual physical counts are not performed. The Corporation has begun tagging all capital assets entering the building which are then recorded on a computerized data base. In addition, as part of the Year 2000 readiness, the majority of medical equipment and computerized equipment have been identified, tagged and entered onto a spreadsheet. In conjunction with the implementation of the new computerized information system, a capital asset module is anticipated to be purchased. The module being looked at utilizes bar codes which would facilitate an annual count and a more efficient reconciliation process.

The Corporation still maintains numerous housing projects. Revenues and expenses for these properties are recorded in the Board of Trustees fund accounts. The Corporation is currently revising the method of accounting for these properties to enable the Board to better determine the financial viability of the properties on an individual basis.

Compliance with Legislation

1996 Recommendation

The Board should comply with the Hospitals Act *and the Corporation's constitution.*

Action Taken

Approval for the $14.8 million in bank indebtedness and the $4.8 million in long term debt has been borrowed with the explicit approval of the Minister of Health and Community Services and is continually approved on an annual basis.

The Public Tender Act

1996 Recommendations

The Board should comply with the Public Tender Act *and its Regulations.*

Documentation should be retained of the time and date tender bids are received and bids should be secured in a locked box until the tender opening.

Documentation should be retained for the exclusion of a bid during the evaluation process.

Action Taken

The practice of requesting exact model names and numbers or approved equals or equivalent has been discontinued except in a couple of rare cases for food purchases.

A new process whereby a tender evaluation document is completed and filed with each tender call has been initiated. This form is used to document the entire process from requisitioning up to the approval, award and notification of tender.

The approval of change orders in excess of 5% now go to Board for approval.

Tender bids are now time and date stamped and filed in an assigned locked cabinet.

Hiring of External Consultants

1996 Recommendation

The Board should develop policies for the hiring of external consultants.

Action Taken

At its 22 October 1998 meeting, the Board revised its policy regarding the hiring of external consultants whereby the Corporation would follow the guidelines as established by Treasury Board.

Travel

1996 Recommendation

The Board should develop appropriate procedures to ensure compliance with its own and Government travel policies and ensure adequate controls are in place to monitor and control travel advances and expenditures.

Action Taken

The Corporation has revised its travel policies for board travel. There is currently only one corporate credit card which is used for medical escort and travel outside the region. All travel claims must be supported by original attached receipts and receive approval of the employees' immediate supervisor. Actual travel costs are compared to budget on a regular basis throughout the year.

Employee Benefits

1996 Recommendation

The Board should comply with Government's policy regarding monetary and non-monetary supplements to management staff.

Action Taken

The Board attempted to discontinue the payment of 100% of the premiums for managers' long term disability insurance; however, letters of concern were received from employees with chronic medical problems and the fear of not being able to obtain insurance from another agency. The Board received a legal opinion which stated that the Corporation could be subject to significant claims if the plan was cancelled. As a result, the Corporation continued the plan with the employee providing 50% coverage on premiums. The practice of providing 100% premium coverage for the executives' group health and voluntary life insurance has been discontinued. Also, the dental plan is now 100% employee funded.

The practice of providing service awards is still continued by the Corporation. Lapel pins are awarded every 5 years, after 10 years of employment. Also, watches are provided to employees leaving the service of the Corporation; however, this has been done through purchases already reported in our 1996 Annual Report item. No new awards have been purchased since.

Inventory

1996 Recommendation

The Board should ensure its inventory is adequately controlled, monitored, safeguarded and reported.

Action Taken

The Corporation's computerized inventory systems are not integrated with the other systems used in the hospitals. This has provided several challenges to the Corporation regarding the charging out of supplies, the maintaining of inventory levels and the creation of meaningful reports. As part of the solution, the new computerized information system is to have a fully integrated inventory module to overcome these challenges.

Human Resources

1996 Recommendations

The Board should ensure competition files are maintained.

Performance evaluations should be performed in accordance with Board policies.

Action Taken

A new policy was passed in June 1997 regarding the hiring of individuals and the documentation to be maintained in job competitions. This policy requires all competition files, including interview questions and notes, to be maintained for 10 years in the Human Resources Department.

In June 1997, a policy regarding performance appraisals was passed and in the Fall of 1998, supervisors were educated in a new criteria-based evaluation mechanism with the intention to have performance appraisals completed as soon as possible. Employees on probationary periods have received a full performance appraisal.

Employee Leave

1996 Recommendations

The Board should develop standard leave and overtime approval forms for use by all staff.

Sick leave should be supported by a doctor's note when required.

Leave banks should be periodically monitored to ensure employees have not exceeded their leave accrual or sick leave credit.

Overtime should be approved in advance in writing.

Action Taken

The issue of sick leave continues to be a problem for the Corporation; however, the Human Resources Department is continuing to monitor the issue and has recently held sessions with managers. At these sessions, managers have been informed as to what initiatives they can take to help reduce or help relieve the sick leave issue. A report is issued to managers on a regular basis which compares the sick leave relief cost to sick leave budget.

4.2.34 Newfoundland Medical Care Commission (1996 Annual Report, Part 3.8)

Introduction

The Newfoundland Medical Care Commission administers the Newfoundland Medical Care Plan (MCP) and the Dental Health Plan in accordance with the *Medical Care Insurance Act* and its supporting regulations. These plans provide payments to physicians and dentists for services rendered to the residents of Newfoundland. The Commission is funded almost entirely by the Province.

In 1996, we made recommendations to improve the Commission's management practices, controls over payments relating to health care, compliance with legislation and compliance with Government compensation practices.

Update

The Commission has taken action on most of the recommendations made in 1996. With respect to these recommendations, the status of the action taken is outlined as follows:

Management Practices

1. Planning

1996 Recommendation

The Commission should consider developing a strategic plan that would include the formulation of a mission statement, priorities and objectives, and performance indicators against which progress toward objectives can be measured.

Action Taken

The Commission has not yet developed a strategic plan. It has, however, adopted a mission statement and does prepare an annual operational plan. This operational plan identifies the Commission's goals, and the short-term objectives and related projects which will be pursued during the fiscal year for each Commission department. Progress of projects is monitored during the year and revisions are made to the plan, or resources are redistributed, as required, to meet priorities. At the end of each year, actual achievements are measured against planned initiatives to gauge progress towards the goals and objectives.

2. Reporting

1996 Recommendation

The annual report should provide sufficient information on a timely basis to assist the House of Assembly in holding the Commission accountable for its activities.

Action Taken

The Commission's 1995-96, 1996-97 and 1997-98 annual reports were submitted within the statutory submission period. A section in each annual report is devoted to identifying operational plan objectives which the Commission achieved.

3. Organization

1996 Recommendation

All committees should be reviewed and clear terms of reference approved to support the role of each committee.

The Policy and Procedures Manual should be completed and updated for all significant policies.

Action Taken

All committees' terms of reference have been reviewed and approved.

Significant progress has been made in documenting policy and procedures. These have been specified in the Commission's Policy and Procedures Manual and more detailed manuals have been developed for the Finance and Systems Divisions. Resources have been allocated to ensure that Policy and Procedures Manuals are continually updated and that they will continue as 'living and working' documents.

4. Human Resource Management

1996 Recommendation

Human resource management should be strengthened by ensuring position descriptions are current, performance objectives are established, performance appraisals are conducted and the training needs of employees are assessed in a planned fashion. Consideration should be given to forming a Human Resource Committee to aid in this respect.

Action Taken

Where needed, position descriptions for all Commission employees have been updated.

The Commission has formed a Human Resources Committee which meets regularly to address staffing issues including employee training and development, employee relations, employee appraisals, compensation and evaluation. To date, the Commission has not set performance objectives, conducted performance appraisals or conducted a training needs assessment.

5. Budgeting

1996 Recommendation

The Budget/Finance Committee should record minutes of its meetings to document discussions held and decisions made.

Action Taken

The Budget/Finance Committee now records minutes of its meetings.

6. Cash Management

1996 Recommendations

Transfers of funds from the Department of Health should be delayed as long as possible to enable the higher return to be obtained on Provincial resources.

The Commission should perform further cost-benefit analysis to determine if the Treasury Account is prudent to maintain.

Payments should be made when due, neither early nor late, except to take advantage of trade discounts.

Action Taken

The Commission reported that its return on investment equaled or exceeded the return received by the Provincial Department of Finance but were unable to support this assertion.

The Commission's Treasury account was cancelled in 1995-96.

Payments for goods and services are made only when due, unless trade discounts for early payment are available.

Controls over Payments

1. Provider Registration

1996 Recommendation

The Commission should formalize its policy to ensure all providers in the Province are registered.

Action Taken

The Commission now has a documented policy respecting provider registration. The Commission reports that any instances of unregistered providers are immediately addressed as they are detected.

2. Beneficiary Registration

1996 Recommendation

The Commission should consider the potential costs associated with the use of the current MCP card and determine whether changes are warranted.

Action Taken

A review of the matter of adoption of a Unique Identifier and new expiry-dated health cards for residents of the Province is currently being conducted by the Newfoundland and Labrador Centre for Health Information. MCP is participating directly in this review and will also have direct involvement in the implementation of changes, which have yet to be determined.

3. Edit and Assessing Controls

(a) Fee-for-Service Claims Processing

1996 Recommendation

The Commission should reconsider the practice of not accumulating patient histories for services provided by salaried physicians or through sessional arrangements.

Action Taken

Responsibility for the processing of salaried physician claims was transferred to the Department of Health and Community Services in 1997 and decisions regarding accumulation of patient histories for salaried physician services now rest with the Department.

Patient histories for services received through sessional arrangements are now available with the implementation of the Commission's new automated sessional claims processing system.

(b) Salaried Physicians

1996 Recommendation

Efforts to monitor salaried positions should continue.

Action Taken

Responsibility for the processing of salaried physician claims was transferred to the Department of Health and Community Services in 1997 and that Department is responsible for monitoring payments for those services.

(c) Out-of-Province Claims

1996 Recommendation

The Commission should follow up on services provided by other provinces to patients with terminated or missing MCP numbers. Use of cards with expiry dates would help to prevent errors in out-of-province claims.

Action Taken

The Commission indicates that its staff are now regularly checking reports of services billed by other provinces using erroneous, incomplete or missing health care numbers. In most cases, patients' correct MCP numbers are identified, thereby confirming appropriate billing. Provinces which appear not to be applying proper check digit routines for MCP numbers are written and requested to do so. With regard to terminated numbers, the Coordinating Committee on Reciprocal Billing has recently reiterated its position that the Reciprocal Billing Agreement, which provides significant out-of-province claims processing efficiencies for all participating provinces, is based in part upon the principle that relatively minor losses incurred through payment of ineligible claims, will generally be offset by the avoidance of costs in reverse situations. All provinces have agreed that it would be unfeasible to pursue adjustments in these instances.

The Commission regularly attempts to contact beneficiaries who may have moved permanently to other provinces, seeking return of MCP cards. A procedure has been developed and implemented to contact other provincial plans and/or out-of-province physicians to arrange contact with such beneficiaries.

(d) Sessional Arrangements

1996 Recommendation

The Commission should implement procedures to periodically check that services provided during a sessional arrangement were not also billed by the physician under fee-for-services processing.

Action Taken

The Commission has implemented an audit procedure to cross-check sessional claims against fee-for-service claims.

(e) Workers' Compensation Recoveries

1996 Recommendation

The issue surrounding WCC recoveries should be resolved.

Action Taken

In 1996, MCP and WCC implemented a two year agreement for the exchange of claim information to provide for the recovery of funds for WCC claims that were billed to MCP. A permanent information exchange program has been negotiated and will be in place prior to year end.

4. Audit

(a) Audit Coverage

1996 Recommendations

Results of confirmation letters should be tabulated by physician and meaningfully evaluated to aid in determining when audits should be initiated.

Audits of fee-for-service payments should be extended to cover more specialists and other fee codes.

The Commission should continue efforts and plans to audit other areas, specifically the Dental Health Plan, Out-of-Province claims, salaried physicians and sessional arrangements.

Action Taken

Additional resources have been added to the Commission's Audit Division and these are assigned in relation to priorities and objectives that are identified in the Audit Division's section of the Commission's operational plan.

Confirmation letters are tabulated by physician and, following evaluation, provide a valuable aid in the initiation of audits.

Since the addition of personnel to the Audit Division, a greater number of specialists and a wider variety of fee codes are being audited.

(b) Operations

1996 Recommendation

The Audit Division should prepare an annual operational plan to ensure adequate management of audits. A time-keeping and reporting system should be developed for this area to enable the Commission to adequately plan and monitor audits in progress. Effort should be given to finalizing older audits.

Action Taken

The Audit Division's goals, objectives and projects form an integral part of the Commission's operational plan. Audit Division staff instituted a time keeping and recording system to track time spent on various audit activities but felt it contributed very little to the planning and monitoring of the audit function. Therefore, the system was abandoned. All old audits have been completed or have reached final processing stages. All current audits being worked on internally were initiated within the past two fiscal years.

Compliance with Legislation

1996 Recommendation

The Commission should endeavour to prepare its annual report by the statutory deadline of 30 September in order to comply with the Act.

Action Taken

The Commission's 1995-96, 1996-97 and 1997-98 annual reports have been submitted within the prescribed submission period.

Compensation and Other Practices

1. Compensation Practices

1996 Recommendation

The Commission should review policy as it relates to the compensation practices noted.

Action Taken

The Commission has reviewed its policy as it relates to compensation practices and made the necessary adjustments.

2. Hiring of Consultants

1996 Recommendation

The Commission should develop policies and procedures for the hiring of consultants. Treasury Board's Guidelines Covering the Hiring of External Consultants should be considered in this respect.

Action Taken

The Commission has drafted a policy respecting the hiring of external consultants. This policy is based upon Treasury Board's Guidelines Covering the Hiring of External Consultants.

3. Conflict of Interest

1996 Recommendation

The Commission should ensure that all Board and Committee members receive adequate guidance concerning conflict of interest.

Action Taken

The Commission reports that all Board and Committee members receive conflict of interest guidance. However, there is no formalized policy or procedure.

Department of Mines and Energy

4.2.35 Mineral Lands Security Account (1996 Annual Report, Part 3.14)

Introduction

The Department of Mines and Energy (formerly the Department of Natural Resources) is responsible for managing the mineral resources of the Province. This responsibility is met in part by regulating all mineral exploration operations. This is achieved by the issuance of exploration licences under the *Mineral Act* and related regulations. The Mineral Lands Division is responsible for the issuance of the licences and the administration and maintenance of maps showing the lands claimed.

The Financial and General Operations Division is responsible for the control of funds associated with the issuance of licences. Individuals and companies wishing to conduct exploration work must file security at the time of obtaining their licence to provide some assurance that exploration will be carried out. Security held on behalf of a licence holder is returned if exploration work is performed as required, otherwise the security is turned over to the Province. A recording fee per claim is also paid at the time a licence is issued to cover the cost of processing the application.

In 1994, in a management letter to the Department of Mines and Energy resulting from the audit of the Consolidated Revenue Fund financial statements of the Province, we reported that controls over the Mineral Lands Security Account were inadequate. Specifically, bank reconciliations were not being performed and the ledger detailing the individual balances did not agree with the total amount recorded in the control account.

In July 1995, following the substantial increase in the level of funds held in this account, the Government Accounting Division of Treasury Board Secretariat and the Department carried out a review and made recommendations concerning the administration of the account. As a result of this review, the funds held in the account have now been transferred to the Newfoundland Exchequer Account and are recorded in the Consolidated Revenue Fund as special purpose funds.

We completed an additional review of the Mineral Lands Security Account in February 1996. We found that policies and procedures within the Financial and General Operations Division were not operating adequately. Specifically, adequate segregation of duties was not always in place, numerical continuity of receipts was not periodically reviewed, deposits were not made on a timely basis, accounts were maintained manually instead of being integrated with the Mineral Rights Database used to record licences issued, accounts were not reconciled on a monthly basis and management did not monitor compliance with departmental policies and procedures. Despite control weaknesses, no significant irregularities came to our attention as a result of our review. However, the subsidiary ledger records had not been updated since November 1995 and numerous errors were identified which required correction before Government could accurately determine to whom it owed the balance of funds held in the account.

Update

The Department of Mines and Energy has taken satisfactory action to resolve issues relating to segregation of duties, cash receipts, cash deposits, reconciliations, management review and the updating of application fees. Actions taken on our other recommendations are as follows.

Ledger Maintenance

1996 Recommendations

The Department should increase efforts to computerize its accounting for the Mineral Lands Security Account before further increase in activity occurs. Consideration should be given to a full integration of the Mineral Rights Database with the financial accounting information.

The Department should comply with internal policy so that adequate and current information on this significant liability is available for management purposes.

Action Taken

The Department has not computerized the accounting for the Mineral Lands Security Account. A manual ledger is still used to record individual entity transactions including deposits and refunds of security. The Department has indicated that it is considering discontinuing the manual subsidiary ledger.

Consolidated Revenue Fund

4.2.36 Accounts and Loans Receivable in Government (1996 Annual Report, Part 3.16)

Introduction

In our 1996 Report we noted that amounts owed to Government by third parties represented a significant asset for Government. Accordingly, their timely collection would increase the amount of cash Government had on hand to finance its operations. The need for Government to collect cash on a timely basis was of even greater significance in times of fiscal restraint. We reported that there was no government-wide system in place to record, monitor, control and collect total amounts owed to Government. Departmental systems ranged from manual year-end listings and other manual records, to computerized systems and there was little consistency among these various systems. As a result there was little information available on a timely basis as to the age and collectibility of amounts owed to Government. Therefore, with the exception of the 31 March balances, Government did not know how much money it was owed at any given point in time.

Our review of the Public Accounts of the Province for the year ended 31 March 1996 disclosed that of the $537.1 million owed to Government at 31 March 1996, $209.5 million had been outstanding in excess of one year. In addition, of the $537.1 million, $139.1 million related to Enterprise Newfoundland and Labrador Corporation, the Fisheries Loan Board and the Farm Development Loan Board, of which $51.2 million was in arrears. Also included in the $537.1 million was $38.5 million due from the Newfoundland Industrial Corporation on a long term basis with no specific repayment date. We also noted that during the previous five years Government had written off $121.3 million in accounts receivable owed to it.

We concluded that Government was not effective in collecting amounts owed to it and that there was no government-wide system in place to record, monitor and control and collect the total amounts owed, nor was there consistency among departments in this area. We also concluded that the systems in place in many departments were not adequate to support collection of amounts owed to Government.

Update

During 1998, we completed a follow up review of Accounts and Loans Receivable in Government. The results of our review are outlined in part 3.6 of this report.

CHAPTER

5

GENERAL MATTERS AND WORK OF THE AUDIT OFFICE

CHAPTER

5

General Matters and Work of the Audit Office

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5.1 Operations of the Office of the Auditor General

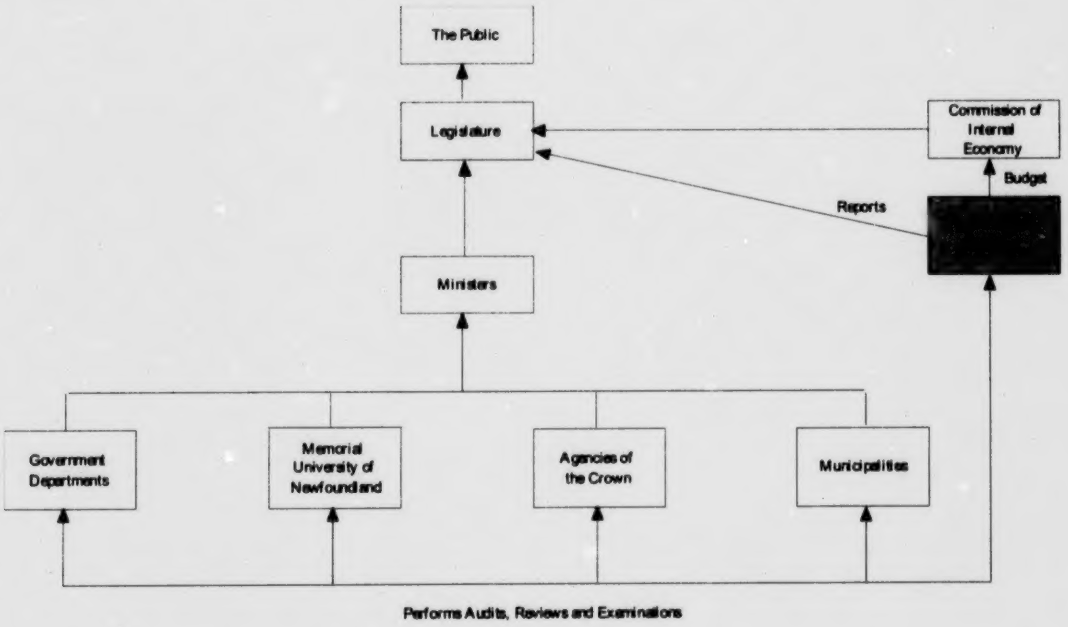
Mandate and Objectives

The Office of the Auditor General operates under the authority of the *Auditor General Act* which was assented to 31 October 1991. The full text of the *Auditor General Act* is presented as Appendix I to this Report. The Auditor General is appointed for a 10 year non-renewable term as an officer of the House of Assembly and is the independent Legislative Auditor of Government, its departments, all Crown agencies and Memorial University of Newfoundland. Implicit in the *Auditor General Act* is the requirement for the Auditor General to provide the House of Assembly with timely, relevant information, necessary to enhance public sector accountability and performance.

Public sector accountability is based on the premise that governing bodies are best served by knowing whether the responsibilities conferred on government departments and agencies are satisfactorily performed and intended results are achieved. The Auditor General brings an independent audit process to the manner in which these conferred responsibilities are discharged in the public sector and reports directly to the House of Assembly on the results of these audits. The role of the Auditor General complements the accountability relationship which exists between Government, its departments and agencies, and the House of Assembly, as illustrated in Figure 1.

Figure 1

Office of the Auditor General Accountability Relationship


The Public
Legislature
Commission of Internal Economy
Budget
Reports
Ministers
Government Departments
Memorial University of Newfoundland
Agencies of the Crown
Municipalities
Performs Audits, Reviews and Examinations

Reports

The Auditor General reports to the House of Assembly on significant matters which result from the examinations of Government, its departments and agencies of the Crown and Crown controlled corporations. A list of Departmental audits performed by our Office is included as Appendix II of this Report.

Our process for conducting examinations provides senior officials with an opportunity to meet and discuss the scope and objectives of our work before it commences. Furthermore, every report resulting from our examinations includes our conclusions, findings and recommendations and is reviewed with senior officials before being included in the Annual Report to the House of Assembly. This validation process allows the senior officials the opportunity to provide any new or additional information that may not have been previously provided.

The Auditor General is also the independent auditor of the Province's financial statements and the financial statements of many agencies of the Crown and, as such, expresses an opinion on these financial statements. A list of agencies of the Crown and other entities whose financial statement audits are performed by our Office is included as Appendix III of the Report. A list of agencies of the Crown and other entities whose financial statement audits are performed by private sector auditors is included as Appendix IV of the Report.

Section 12 of the *Auditor General Act* requires the Auditor General to report on:

- The work of the office;
- whether, in carrying out the work of the office, the Auditor General received all the information including reports and explanations required;
- the results of the examination of the Province's financial statements;
- audits, examinations and inquiries performed under the Act;
- the results of the examination of the accounts of the Province calling attention to anything the Auditor General considers significant relating to:
    - collections of public money;
    - disbursements of public money;
    - whether accounts have not been faithfully and properly kept;
    - whether assets acquired, administered or otherwise held are not adequately safeguarded and accounted for;
    - whether accounting systems and management control systems that relate to revenue, disbursements, the safeguarding or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with; and
    - any factors or circumstances relating to an expenditure of public money which in the opinion of the Auditor General should be brought to the attention of the House of Assembly.

Mission and Values

The Office of the Auditor General initiated a strategic planning process in August 1994 and completed its Strategic Plan in June 1995. The Plan was updated in 1996 and focuses on the priorities and initiatives of the Office from 1996 to 2001. The strategic planning process required the development of an office mission statement and identification of our values as follows:

Mission Statement

The Office of the Auditor General serves the House of Assembly by providing independent examinations of government and its entities.

As legislative auditors, we audit financial statements and other accountability documents, evaluate management practices and control systems, and determine compliance with legislative and other authorities.

Our purpose is to promote accountability and encourage positive change in the stewardship, management and use of public resources.

Values

We believe in independence for our Office, integrity in our conduct and quality in our work. Therefore we will:

Maintain our independence and avoid the perception of bias;

Strive for excellence in our work and seek continuous improvement in our use of technology, methodology and training;

Treat all external parties with courtesy and respect; and

Conduct ourselves according to the highest professional standards.

We believe everyone should be treated with fairness and respect. Therefore, in our Office, all employees:

Are recognized and valued for contributions;

Communicate openly and work together as a team;

Receive necessary opportunities for professional and personal growth; and

Are accountable for quality performance and encouraged to improve processes.

Our Work

The development of our Strategic Plan resulted in the identification of five main lines of business which serve as a means of determining priorities and allocating resources. The Plan also resulted in the establishment of goals that we now use to measure our progress. The five lines of business, related goals and results to date are outlined as follows:

1. Financial Statement Audits

A financial statement audit enables the Auditor General to express an opinion as to whether the financial statements present fairly the subject matter with which they deal. The opinion is based on an independent assessment and therefore adds credibility to the information to which it is attached.

Goal 1.1

To complete all financial statement audits by the established deadlines.

For most audits, this deadline is three months after the period being audited.

For the financial statements of the Province, this deadline is 30 September.

Status

All financial statement audits were completed by the established deadlines.

Appendices III and IV indicate the audits completed by the Auditor General and the Private Accounting Firms respectively, their fiscal year ends and the date of the Auditor's Report.

Goal 1.2

To complete all financial statement audits within a 10% variance of budget for time and cost.

Status

All financial statement audits were completed within a 10% variance of budget for time and cost.

Goal 1.3

To have 100% compliance with professional standards and internal Office policy.

Status

All financial statement audits were conducted in accordance with professional standards and internal Office policy.

2. Legislative Audits

Legislative audits provide the House of Assembly with an independent professional assessment of public sector accountability, thereby facilitating informed judgements on the manner in which the public sector discharges its responsibilities. Legislative audits may include evaluation of accountability relationships, management practices and control systems; assessment of compliance with legislation and other authorities; and performance audits of program results compared to established criteria.

Goal 2.1

To implement a risk based audit management system that will enable us to identify Government programs and Crown agencies to be audited each fiscal year in accordance with predetermined standards.

To implement a computerized risk based audit management system by June 1997.

Status

In November 1995 we implemented an audit selection process based on an assessment of risk.

The computerized risk based audit management system was developed in the spring of 1997 and was used in planning for the 1998 audit cycle.

Goal 2.2

To provide the House of Assembly with an annual accountability document on the Office of the Auditor General commencing June 1997.

Status

This goal was not met. During the period the accountability document was to be prepared, the Public Accounts Committee requested audits of the Health Care Corporation of St. John's, the Newfoundland Cancer Treatment and Research Foundation and the Town of Pouch Cove. These audits required significant investment of resources to complete, resulting in a delay in completing the accountability document.

Goal 2.3

To have 80% of our recommendations implemented within 2 years of our report date.

Status

We have established a system to measure the extent to which Government implements our recommendations.

Satisfactory progress has been made or the recommendations are no longer relevant for approximately 65% of our recommendations in our 1994 and 70% of our recommendations in our 1995 report.

Goal 2.4

To have all reports subjected to quality control criteria and a challenge review process.

Status

All legislative audits are subject to quality control criteria and a formal challenge review process.

As legislative auditors, we audit financial statements and other accountability documents, evaluate management practices and control systems, and determine compliance with legislative and other authorities.

Our purpose is to promote accountability and encourage positive change in the stewardship, management and use of public resources.

Values

We believe in independence for our Office, integrity in our conduct and quality in our work. Therefore we will:

Maintain our independence and avoid the perception of bias;

Strive for excellence in our work and seek continuous improvement in our use of technology, methodology and training;

Treat all external parties with courtesy and respect; and

Conduct ourselves according to the highest professional standards.

We believe everyone should be treated with fairness and respect. Therefore, in our Office, all employees:

Are recognized and valued for contributions;

Communicate openly and work together as a team;

Receive necessary opportunities for professional and personal growth; and

Are accountable for quality performance and encouraged to improve processes.

Our Work

The development of our Strategic Plan resulted in the identification of five main lines of business which serve as a means of determining priorities and allocating resources. The Plan also resulted in the establishment of goals that we now use to measure our progress. The five lines of business, related goals and results to date are outlined as follows:

1. Financial Statement Audits

A financial statement audit enables the Auditor General to express an opinion as to whether the financial statements present fairly the subject matter with which they deal. The opinion is based on an independent assessment and therefore adds credibility to the information to which it is attached.

Goal 1.1

To complete all financial statement audits by the established deadlines.

For most audits, this deadline is three months after the period being audited.

For the financial statements of the Province, this deadline is 30 September.

Status

All financial statement audits were completed by the established deadlines.

Appendices III and IV indicate the audits completed by the Auditor General and the Private Accounting Firms respectively, their fiscal year ends and the date of the Auditor's Report.

Goal 1.2

To complete all financial statement audits within a 10% variance of budget for time and cost.

Status

All financial statement audits were completed within a 10% variance of budget for time and cost.

Goal 1.3

To have 100% compliance with professional standards and internal Office policy.

Status

All financial statement audits were conducted in accordance with professional standards and internal Office policy.

2. Legislative Audits

Legislative audits provide the House of Assembly with an independent professional assessment of public sector accountability, thereby facilitating informed judgements on the manner in which the public sector discharges its responsibilities. Legislative audits may include evaluation of accountability relationships, management practices and control systems; assessment of compliance with legislation and other authorities; and performance audits of program results compared to established criteria.

Goal 2.1

To implement a risk based audit management system that will enable us to identify Government programs and Crown agencies to be audited each fiscal year in accordance with predetermined standards.

To implement a computerized risk based audit management system by June 1997.

Status

In November 1995 we implemented an audit selection process based on an assessment of risk.

The computerized risk based audit management system was developed in the spring of 1997 and was used in planning for the 1998 audit cycle.

Goal 2.2

To provide the House of Assembly with an annual accountability document on the Office of the Auditor General commencing June 1997.

Status

This goal was not met. During the period the accountability document was to be prepared, the Public Accounts Committee requested audits of the Health Care Corporation of St. John's, the Newfoundland Cancer Treatment and Research Foundation and the Town of Pouch Cove. These audits required significant investment of resources to complete, resulting in a delay in completing the accountability document.

Goal 2.3

To have 80% of our recommendations implemented within 2 years of our report date.

Status

We have established a system to measure the extent to which Government implements our recommendations.

Satisfactory progress has been made or the recommendations are no longer relevant for approximately 65% of our recommendations in our 1994 and 70% of our recommendations in our 1995 report.

Goal 2.4

To have all reports subjected to quality control criteria and a challenge review process.

Status

All legislative audits are subject to quality control criteria and a formal challenge review process.

3. Monitoring Agencies of the Crown

Our role is to assess all of these entities over an appropriate number of years and to report on their accountability, management practices and control systems, their compliance with legislation, their performance related to established criteria, and any weaknesses or other issues which we feel should be brought to the attention of the House of Assembly.

Goal 3.1

To produce a report on an accountability framework for all financial statement audits of Crown agencies by November 1997.

This framework would include audits conducted by public accounting firms and the provision of information necessary to monitor the activities of all Crown agencies.

Status

We completed our report on an accountability framework for all financial statement audits in August 1996.

Goal 3.1

To provide the House of Assembly with an annual report on the monitoring of Crown agency financial statements commencing June 1997.

Status

Chapter 3.1 of the Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown agencies for the year ended 31 March 1997 contains a summary of this work. A detailed report is in progress.

4. Reporting

The *Auditor General Act* requires that we report, at least annually, to the House of Assembly on the results of our examination of the Province's financial statements and on the results of any audits, examinations or inquiries which we have performed. In addition, when we have completed a financial statement audit we attach our auditor's report to the financial statements and issue a management letter to the entity examined. When we perform a legislative audit, we issue a management report which includes the entities' responses to any comments made.

Goal 4.1

Report to the House of Assembly on our legislative audits in May and November of each year.

Status

Our 1995 and 1996 reports on legislative audits were tabled in the House of Assembly in December of each year. Our 1997 report was tabled in March 1998.

Reports for May 1996 and May 1997 were not prepared as a result of special assignments. In 1996, we carried out a special investigation of the municipality of Conception Bay South at the request of Government. In 1997, we carried out three audits at the request of the Public Accounts Committee. See Goal 2.2.

Goal 4.2

Report on the financial statements of the Province for the fiscal year ended 31 March by November.

Status

Our 1995 and 1996 reports on the financial statements of the Province for the fiscal year ended 31 March were tabled in the House of Assembly in December 1995 and December 1996 respectively while our 1997 report was tabled in March 1998.

Goal 4.3

Report on legislative audits by May 1996 and on monitoring of Crown agency reports by November 1997.

Status

We did not report on any legislative audits in May 1996. See Goal 4.1

We reported on our monitoring of Crown agency reports in our 1997 Annual Report which was tabled in the House of Assembly in March 1998.

Goal 4.4

Investigate multi-media aspects of reporting and make recommendations in November 1997.

Status

In progress. We have developed a home page on Government's Internet site and have included a Summary Report for the year ended 31 March 1997.

5. Special Assignments

Under section 16 of the *Auditor General Act*, the Auditor General may accept assignments from the House of Assembly, the Public Accounts Committee and the Lieutenant-Governor in Council. The results of these assignments are reported to the body making the request.

Goal 5.1

Conduct and report on assignments requested by the House of Assembly, Public Accounts Committee or the Lieutenant-Governor in Council.

Status

Our report on the Conception Bay South Town Council as requested by the Lieutenant-Governor in Council in August 1995 was presented to the Minister of Finance on 2 April 1996 for forwarding to the Lieutenant-Governor in Council.

Our reports on the Health Care Corporation of St. John's and the Town of Pouch Cove were presented to the Public Accounts Committee in August 1997 and tabled in the House of Assembly on 4 September 1997.

Organization

Our employees are our most valuable resource because it is their knowledge and skill that determines the quality of the work that is performed. The Office is organized to allow for the efficient and effective deployment of staff and to support our work. The organizational structure of the Office is outlined in Figure 2.

3. Monitoring Agencies of the Crown

Our role is to assess all of these entities over an appropriate number of years and to report on their accountability, management practices and control systems, their compliance with legislation, their performance related to established criteria, and any weaknesses or other issues which we feel should be brought to the attention of the House of Assembly.

Goal 3.1

To produce a report on an accountability framework for all financial statement audits of Crown agencies by November 1997.

This framework would include audits conducted by public accounting firms and the provision of information necessary to monitor the activities of all Crown agencies.

Status

We completed our report on an accountability framework for all financial statement audits in August 1996.

Goal 3.1

To provide the House of Assembly with an annual report on the monitoring of Crown agency financial statements commencing June 1997.

Status

Chapter 3.1 of the Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown agencies for the year ended 31 March 1997 contains a summary of this work. A detailed report is in progress.

4. Reporting

The *Auditor General Act* requires that we report, at least annually, to the House of Assembly on the results of our examination of the Province's financial statements and on the results of any audits, examinations or inquiries which we have performed. In addition, when we have completed a financial statement audit we attach our auditor's report to the financial statements and issue a management letter to the entity examined. When we perform a legislative audit, we issue a management report which includes the entities' responses to any comments made.

Goal 4.1

Report to the House of Assembly on our legislative audits in May and November of each year.

Status

Our 1995 and 1996 reports on legislative audits were tabled in the House of Assembly in December of each year. Our 1997 report was tabled in March 1998.

Reports for May 1996 and May 1997 were not prepared as a result of special assignments. In 1996, we carried out a special investigation of the municipality of Conception Bay South at the request of Government. In 1997, we carried out three audits at the request of the Public Accounts Committee. See Goal 2.2.

Goal 4.2

Report on the financial statements of the Province for the fiscal year ended 31 March by November.

Status

Our 1995 and 1996 reports on the financial statements of the Province for the fiscal year ended 31 March were tabled in the House of Assembly in December 1995 and December 1996 respectively while our 1997 report was tabled in March 1998.

Goal 4.3

Report on legislative audits by May 1996 and on monitoring of Crown agency reports by November 1997.

Status

We did not report on any legislative audits in May 1996. See Goal 4.1

We reported on our monitoring of Crown agency reports in our 1997 Annual Report which was tabled in the House of Assembly in March 1998.

Goal 4.4

Investigate multi-media aspects of reporting and make recommendations in November 1997.

Status

In progress. We have developed a home page on Government's Internet site and have included a Summary Report for the year ended 31 March 1997.

5. Special Assignments

Under section 16 of the *Auditor General Act*, the Auditor General may accept assignments from the House of Assembly, the Public Accounts Committee and the Lieutenant-Governor in Council. The results of these assignments are reported to the body making the request.

Goal 5.1

Conduct and report on assignments requested by the House of Assembly, Public Accounts Committee or the Lieutenant-Governor in Council.

Status

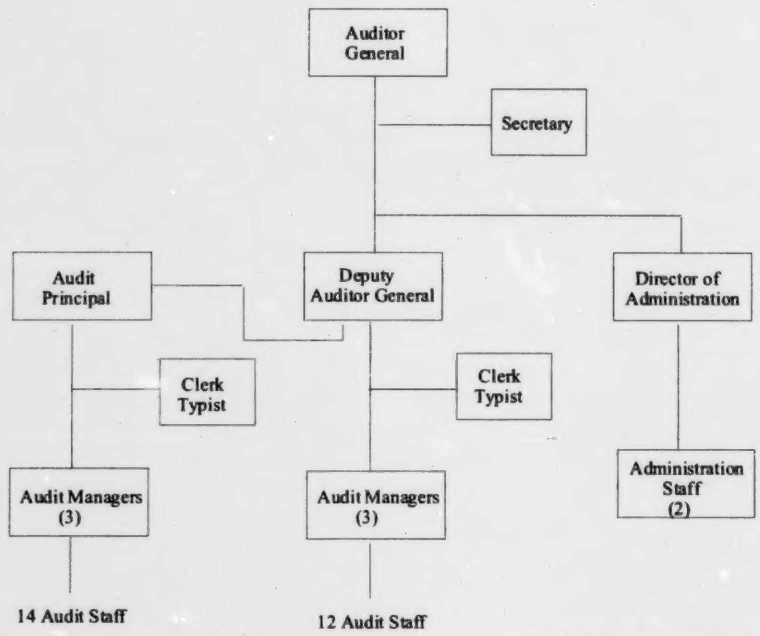
Our report on the Conception Bay South Town Council as requested by the Lieutenant-Governor in Council in August 1995 was presented to the Minister of Finance on 2 April 1996 for forwarding to the Lieutenant-Governor in Council.

Our reports on the Health Care Corporation of St. John's and the Town of Pouch Cove were presented to the Public Accounts Committee in August 1997 and tabled in the House of Assembly on 4 September 1997.

Organization

Our employees are our most valuable resource because it is their knowledge and skill that determines the quality of the work that is performed. The Office is organized to allow for the efficient and effective deployment of staff and to support our work. The organizational structure of the Office is outlined in Figure 2.

Figure 2
Office of the Auditor General
Organization Chart


Auditor General
Secretary
Audit Principal
Deputy Auditor General
Director of Administration
Clerk Typist
Clerk Typist
Audit Managers (3)
Audit Managers (3)
Administration Staff (2)
14 Audit Staff
12 Audit Staff

There are three support services in the Office with the following responsibilities:

Administration - provides strategic and policy advice on human resource management, financial management and report publishing initiatives. At the operational level, this area also provides such services as recruitment, payroll, secretarial support, file registry and purchasing.

Professional Practice - provides technical advice on accounting and auditing policy and practice matters. This area reviews current and emerging accounting and auditing issues within the public sector and provides comments to professional bodies and central agencies.

Information Technology - provides consultation and technical support on all matters dealing with information technology. This area is responsible for implementation of the Office's information technology strategic plan. It also monitors technological developments relevant to the Office, provides ongoing operational support and assists in training activities.

The Office has 41 staff, 37 in the St. John's Office and 4 in the Corner Brook Office. Of the 41 staff, 23 have professional accounting designations and 7 are in training. Figure 3 indicates the Auditor General and the staff of the Office as at 30 September 1998.

Figure 3
Office Staff
30 September 1998

Anne Allen CA
Don Allen CA
Kevin Antle CGA
Kerry Aylward
Paul Burggraaf
Keith Butt CA
John Casey CMA
Rosemarie Crann
Gertrude Critch
Lisa Crowley
Tony Dingwell CA
Bill Drover FCA
Mary Lynn Granville
Joanna Harris CA
Martin Hattenhauer CA
Claude Janes CA
Sheree Jones
Brenda Kavanagh
Wayne Loveys CMA
James Mallard CGA
Elizabeth Marshall CA
Trevor McCormick, CGA
Julia Mullaley CA
Bill Noftall
John Noseworthy CA
Steve Pearce
Tracy Pelley, CMA
Deann Penney
David Pike
Nancy Pitcher
David Ralph CA
Tony Roestenberg CA
Sandra Russell CA
Denise Tubrett, CGA
Paul Tucker
Scott Walters CA
David White FCGA
Tony Wiseman
Vacant Auditor II
Vacant Auditor II
Vacant Auditor III

Financial Statements

Expenditures totalling $2,105,839 for the year ended 31 March 1997 were within the limits of the approved budget. The following financial statements were audited by a public accounting firm.

AUDITOR'S REPORT

To the Commission of Internal Economy
House of Assembly
Province of Newfoundland

I have audited the schedule of assets and liabilities of the Office of the Auditor General, Province of Newfoundland as at 31 March 1998 and the statement of expenditure and related revenue for the year then ended. This financial information is the responsibility of the Office's management. My responsibility is to express an opinion on this financial information based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

In my opinion, this financial information presents fairly, in all material respects, the financial position of the Office as at 31 March 1998 and the results of its operations for the year then ended, in accordance with the accounting principles disclosed in Note 1 to the financial information.

CHARTERED ACCOUNTANT

St. John's, Newfoundland
9 December 1998

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NEWFOUNDLAND
SCHEDULE OF ASSETS AND LIABILITIES
31 MARCH 1998

	1998	1997
ASSETS		
Current		
Audit fees billed and in progress	$ 85,144	$ 40,797
Travel imprests	1,400	1,909
Accountable advance	200	200
	$ 86,744	$ 42,906
LIABILITIES		
Current		
Accrued leave	$203,516	$180,198
Vouchers/HST payable	11,391	0
Accrued payroll	62,194	65,543
Accrued severance pay	309,476	312,665
	$586,577	$558,406

See accompanying notes

Signed on behalf of the Office: ______________________

Auditor General of Newfoundland

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NEWFOUNDLAND
STATEMENT OF EXPENDITURE AND RELATED REVENUE
FOR THE YEAR ENDED 31 MARCH 1998

		Estimates	
	Actual	Amended	Original
EXECUTIVE SUPPORT			
Salaries	**$ 31,747**	$ 31,822	$ 31,822
Salaries (statutory)	**93,778**	93,778	93,778
Employee benefits	**245**	700	2,700
Transportation and communications	**17,601**	18,500	9,000
Professional services	**3,538**	4,500	20,000
Purchased services	**159**	700	700
	147,068	150,000	158,000
ADMINISTRATIVE SUPPORT			
Salaries	**177,316**	181,100	163,500
Employee benefits	**453**	1,900	4,400
Transportation and communications	**28,438**	28,500	28,500
Supplies	**18,605**	19,600	18,100
Purchased services	**162,252**	165,600	160,400
Property, furnishings and equipment	**9,669**	10,400	3,600
Grants and subsidies	**5,000**	5,000	5,000
	401,733	412,100	383,500
AUDIT OPERATIONS			
Salaries	**1,304,139**	1,305,900	1,400,100
Employee benefits	**18,661**	18,700	11,700
Transportation and communications	**44,761**	54,100	60,500
Professional services	**14,794**	17,000	15,000
Information technology	**133,423**	137,000	66,000
	1,515,778	1,532,700	1,553,300
Revenue - provincial	**(133,930)**	(157,800)	(157,800)
	1,381,848	1,374,900	1,395,500
Net Expenditure	**$1,930,649**	$1,937,000	$1,937,000

See accompanying notes

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NEWFOUNDLAND
STATEMENT OF GROSS EXPENDITURE AND UNEXPENDED BALANCES
FOR THE YEAR ENDED 31 MARCH 1998

Original estimates (net)	$1,937,000
Add back revenue estimates net of transfers and statutory payments	64,022
Original estimates of expenditure	2,001,022
Supplementary supply	-
Total appropriation	2,001,022
Total net expenditure	1,930,649
Add revenue less transfers and statutory payments	40,152
Total gross expenditure (budgetary, non-statutory)	1,970,801
Unexpected balances of appropriation	$ 30,221

Summary of Cash Payments and Receipts

Current Account	$2,064,579	$ 133,930	$1,930,649

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NEWFOUNDLAND
NOTES TO FINANCIAL INFORMATION
31 MARCH 1998

Authority

Section 3 of the Auditor General Act provides for the establishment of a department of the public service of the province called the Office of the Auditor General. This Act was assented to on 31 October 1991. The Act provides for the annual audit of the Office and requires that the auditor submit his or her report to the Commission of Internal Economy for tabling before the House of Assembly.

1. Significant accounting policies

This financial information has been prepared by the Office of the Auditor General on a cash basis of accounting modified in accordance with the Financial Administration Act. Outlined below are the significant policies followed:

(a) Revenues

Revenues are recorded when actually received.

(b) Expenditures

Expenditures are recorded when actually paid except that liabilities incurred for the financial year ended 31 March, invoices for which are received by the Comptroller General by 30 April, are recorded as if they were paid by 31 March.

(c) Assets and liabilities

Assets and liabilities are recorded on a basis consistent with the policies used in preparing the Public Accounts of the Province of Newfoundland. Direct liabilities and convertible assets such as amounts receivable are reported in the Schedule of Assets and Liabilities.

(d) Inventories

Inventories are not considered to be convertible and therefore are not valued in the Schedule of Assets and Liabilities. They are charged as budgetary expenditures and are expensed in the year they are acquired.

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NEWFOUNDLAND
NOTES TO FINANCIAL INFORMATION
31 MARCH 1998

1. Significant accounting policies (cont.)

(e) Operating expenses

The employer's portion of government personnel costs is paid by the Department of Finance and is not reflected in this financial information.

(f) Fixed assets

Fixed asset acquisitions are charged as budgetary expenditures and are expensed in the year they are acquired. The assets are not considered to be convertible and therefore are not capitalized and are not valued on the Schedule of Assets and Liabilities.

(g) Income taxes

The Office of the Auditor General is not subject to Provincial or Federal income taxes.

2. Pensions

Under the Auditor General Act, all persons employed in the Office of the Auditor General are employees for the purposes of the Public Service Pensions Act, 1991, and are entitled to all the benefits under that Act. No pension expenditure has been recorded in this financial information.

APPENDICES

APPENDICES

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Auditor General Act

1. This Act may be cited as the *Auditor General Act*.

2. (1) In this Act

(a) "agency of the Crown" means an authority, board, commission, foundation, agency, corporation, association, institute or other body of persons, whether incorporated or unincorporated, 50% or more of the members of which or 50% or more of the members of the board of management or board of directors of which,

(i) are appointed by an Act of the Legislature or by the Lieutenant-Governor in Council, or

(ii) where not so appointed, in the discharge of their duties are public officers or servants of the Crown or are responsible to the Crown for the proper discharge of their duties;

(b) "audit" means an audit or examination of accounts of public money that may be made by the auditor general under this Act;

(c) "auditor general" means the Auditor General of Newfoundland appointed under section 4;

(d) "commission" means the Commission of Internal Economy of the House of Assembly appointed under the authority of *The Internal Economy Commission Act*;

(e) "Crown controlled corporation" means a corporation that is not an agency of the Crown and having

(i) 50% or more of its issued and outstanding shares vested in the Crown or in the name of a minister of the Crown, or

(ii) the appointment of a majority of its board of directors made or approved by the Lieutenant-Governor in Council;

(f) "office" means the Office of the Auditor General established under section 3; and

(g) "public money" means all money received, held or collected for or on behalf of the province by a minister of the Crown or other public officer in his or her official capacity or by a person authorized to receive, hold or collect that money, and includes

(i) all revenues of the province,

(ii) money borrowed by the province or received through the issue and sale of securities, and

(iii) money paid to the province for a special purpose.

(2) Words and expressions used in this Act and not defined in subsection (1) have the same meaning as in *The Financial Administration Act, 1973.*

3. There is established a department of the public service of the province called the Office of the Auditor General, over which the auditor general shall preside.

4. (1) The Lieutenant-Governor in Council shall, by commission under the Great Seal of the province, appoint a qualified auditor to be the officer called the Auditor General of Newfoundland.

(2) The person appointed to the position of auditor general under this section must be confirmed in office as auditor general by the introduction in the House of Assembly of a resolution within 10 days after his or her appointment and if the House of Assembly is not sitting within 10 days after the commencement of the next ensuing Session of the House of Assembly or within 10 days after the House of Assembly resumes sitting following an adjournment of the House of Assembly.

(3) The auditor general is by virtue of his or her position an officer of the House of Assembly.

5. (1) The auditor general holds office for a term of 10 years but may be removed for cause by the Lieutenant-Governor in Council following the passing by the House of Assembly of a resolution requesting the Lieutenant-Governor in Council to do so.

(2) Once having served as auditor general, a person is not eligible for reappointment to that office.

6. In the event of the absence or incapacity of the auditor general or where the Office of Auditor General is vacant, the Lieutenant-Governor in Council may appoint a person temporarily to perform the duties of the auditor general.

7. The auditor general shall be paid a salary out of the Consolidated Revenue Fund at a rate set by the Lieutenant-Governor in Council and is entitled to the privileges of office of a deputy minister.

8. The auditor general shall not hold an office of profit or shall not act as trustee for profit for another person, other than his or her office as auditor general or engage in an occupation for reward outside the duties of his or her office.

9. (1) Before entering upon his or her duties, the auditor general shall

(a) take or make and sign the Oath or Affirmation of Allegiance under *The Oaths of Office Act*; and

(b) take or make and sign the following oath or affirmation of office:

"I, ..., do solemnly swear (or solemnly, sincerely and truly declare and affirm) that I will faithfully, truly, impartially, honestly, justly and to the best of my judgment, skill and ability, execute and perform the powers, duties and functions reposed in or required of me as auditor general under the *Auditor General Act* or another Act and that I will observe and comply with the laws of Canada and Newfoundland." (Where an oath is taken add "So help me God").

(2) The oaths or affirmations referred to in subsection (1)shall be administered by the Speaker or by the Clerk of the House of Assembly.

10. The auditor general is the auditor of the financial statements and accounts of the province and shall make those examinations and inquiries that the auditor general considers necessary to enable him or her to report as required by this Act.

11. The auditor general shall examine the several financial statements required by *The Financial Administration Act, 1973* to be included in the public accounts of the province, and any other statement that is required to be audited by the auditor general under that Act or another statement that the Minister of Finance may present for audit and shall express his or her opinion as to whether the financial statements present fairly the financial position, results of operations and changes in the financial position of the province in accordance with the disclosed accounting policies of the provincial government and on a basis consistent with that of the preceding year, together with reservations the auditor general may have.

12. (1) The auditor general shall as he or she considers necessary but at least annually report to the House of Assembly on

(a) the work of the office;

(b) whether, in carrying out the work of the office, the auditor general received all the information including reports and explanations the auditor general required;

(c) the results of the auditor general's examination of the financial statements referred to in section 11; and

(d) audits, examinations and inquiries performed under this Act.

(2) A report of the auditor general under subsection (1) shall include the results of the auditor general's examination of the accounts of the province, and shall call attention to anything the auditor general considers significant, including instances where

(a) collections of public money

(i) have not been effected as required under various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts;

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote, or relevant Act,

(ii) have not complied with regulations, directives or orders applicable to those disbursements,

(iii) have not been properly reflected in the accounts, or

(iv) have not been made for the purposes for which it was appropriated;

(c) accounts have not been faithfully and properly kept;

(d) assets acquired, administered or otherwise held are not adequately safeguarded or accounted for;

(e) accounting systems and management control systems that relate to revenue, disbursements, the safeguarding or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with; or

(f) factors or circumstances relating to an expenditure of public money which in the opinion of the auditor general should be brought to the attention of the House of Assembly.

(3) Paragraph (2)(f) shall not be construed as entitling the auditor general to question the merits of policy objectives of the government.

13. (1) Each report of the auditor general referred to in section 12 shall be submitted to the Speaker of the House of Assembly and the Speaker shall table each report before the House of Assembly immediately after receipt of the report by him or her or, where the House of Assembly is not then in Session, on the 1st day of the commencement of the next ensuing Session of the House of Assembly or on the 1st day after the House of Assembly resumes sitting following an adjournment of the House of Assembly.

(2) The annual report of the auditor general shall be submitted on or before January 31 following the close of the fiscal year to which the report relates.

14. (1) Where an auditor has not been appointed to audit an agency of the Crown or a Crown controlled corporation, the auditor general shall be the auditor.

(2) Where the auditor of an agency of the Crown or of a Crown controlled corporation is other than the auditor general, the auditor shall

(a) deliver to the auditor general after completion of the audit a copy of the auditor's report, his or her recommendations to management and a copy of the audited financial statements of the corporation or agency;

(b) make available immediately to the auditor general, when so requested by the auditor general, all working papers, reports, schedules and other documents in respect of the audit; and

(c) provide immediately to the auditor general, when so requested by the auditor general, a full explanation of work performed, tests and examinations made and the results obtained, and other information relating to the audit within the knowledge of that auditor in respect of the agency or corporation.

(3) Where the auditor general is of the opinion that the information, explanation or document that is provided, made available or delivered to the auditor general by the auditor referred to in subsection (2) is insufficient to permit the auditor general to exercise his or her powers or duties under this Act, the auditor general may conduct or cause to be conducted an additional examination and investigation of the records and operations of the agency of the Crown or the Crown controlled corporation that the auditor general considers necessary.

15. (1) Where during the course of an audit, the auditor general becomes aware of an improper retention or misappropriation of public money or another activity that may constitute an offence under the *Criminal Code* or another Act, the auditor general shall immediately report the improper retention or misappropriation of public money or other activity to the Lieutenant-Governor in Council.

(2) In addition to reporting to the Lieutenant-Governor in Council under subsection (1), the auditor general shall attach to his or her annual report to the House of Assembly a list containing a general description of the incidents referred to in subsection (1) and the dates on which those incidents were reported to the Lieutenant-Governor in Council.

16. (1) The auditor general may, where in his or her opinion such an assignment does not interfere with the auditor general's primary responsibilities under this Act, whenever the Lieutenant-Governor in Council so requests or the House of Assembly or the Public Accounts Committee by resolution so requires, inquire into and report on a matter relating to the financial affairs of the province or to public property or inquire into and report on a person or organization that has received financial aid from the government of the province or in respect of which financial aid from the government of the province is sought.

(2) Where the auditor general makes a report in accordance with subsection (1), the auditor general shall report back to either the Lieutenant-Governor in Council, the House of Assembly or the Public Accounts Committee.

17. Except as provided by another Act that expressly refers to this section, every department of government, every agency of the Crown and every Crown controlled corporation shall furnish the auditor general with information regarding its power, duties, activities, organization, financial transactions and methods of business as the auditor general requires, and the auditor general shall be given access to all books, accounts, financial records, reports, electronic data processing records, explanations, files and all other papers, things or property belonging to or in use by the department, agency of the Crown or Crown controlled corporation and necessary to the performance of the duties of the auditor general under this Act.

18. (1) The auditor general may examine a person on oath or affirmation on a matter pertinent to an account submitted to the auditor general for audit and the oath or affirmation may be administered by the auditor general to a person whom the auditor general desires to examine.

(2) In order to compel the attendance of a person under subsection(1), the auditor general may apply to a judge of the Trial Division for an order that a subpoena be issued from the court commanding the person named in the subpoena to appear before the auditor general at the time and place mentioned in the subpoena, and then and there to testify to all matters within that person's knowledge relative to an account submitted to the auditor general.

(3) Where so required, the person named in the subpoena shall produce a document, paper or thing which he or she has possession of relative to the account.

(4) A person named in a subpoena issued under this section is entitled to reasonable expenses at the time of the service.

19. Notwithstanding sections 17 and 18, the auditor general shall not be permitted access to reports arising out of the conduct of lawful police investigations or to information in the records listed in paragraphs 9(1)(b) to (f) of *The Freedom of Information Act* except for the information in the records disclosed under subsection 9(2) of that Act.

20. The auditor general may station in the offices of a department, agency of the Crown or Crown controlled corporation, an employee of the office for the purpose of enabling the auditor general to more effectively exercise or perform his or her powers and duties under this or another Act, and the department, agency of the Crown or Crown controlled corporation shall provide the necessary office accommodation and facilities for employees so stationed.

21. The auditor general and each person employed in the office or appointed or engaged to assist the auditor general for a limited period of time or in respect of a particular matter under section 28 shall keep confidential all matters that come to his or her knowledge in the course of his or her employment or duties under this Act and shall not communicate those matters to another person, except as may be required in connection with the discharge of his or her responsibilities under this Act or under the *Criminal Code*.

22. Audit working papers of the office shall not be laid before the House of Assembly or a committee of the House of Assembly.

23. (1) Those auditors and employees that are necessary to enable the auditor general to perform his or her duties under this or another Act shall be appointed or employed in the manner authorized by law and are members of the public service of the province.

(2) The personnel management policies of the Treasury Board as they relate to the public service of the province apply to the office.

(3) *The Conflict of Interest Act, 1973* applies to the auditor general and every person employed in the office.

24. (1) Every person employed in the office, shall, before performing a duty as an employee in the office

(a) take or make and sign the Oath or Affirmation of Allegiance under *The Oaths of Office Act;* and

(b) take or make and sign the following oath or affirmation of office:

> "I ...., do swear (or solemnly, sincerely and truly, declare and affirm) that I will faithfully, honestly and impartially to the best of my knowledge, skill and ability perform my duties as an employee in the Office of the Auditor General and that I will observe and comply with the laws of Canada and Newfoundland and except as I may be legally required, I will not disclose or give to a person information or a document that comes to my knowledge or possession by reason of my being an employee in the Office of the Auditor General." (In the case where an oath is taken add "So help me God").

(2) The oaths or affirmations referred to in subsection (1) shall be administered by the auditor general or his or her designate.

(3) The auditor general may require a person or class of persons appointed to assist the auditor general for a temporary period of time or in respect of a particular matter under section 28 to take or make and subscribe the oaths or affirmations referred to in subsection (1).

(4) A copy of each oath or affirmation administered to an employee of the office under subsection (1) shall be kept in the files of the office.

(5) The refusal of an employee of the office to take or make and subscribe to the oaths or affirmations or the failure to adhere to the oaths or affirmations required by subsection (1) may be considered as cause for dismissal.

25. (1) All persons employed in the office are employees for the purposes of the *Public Service Pensions Act, 1991* and are entitled to all the benefits under that Act.

(2) Notwithstanding subsection (1), the LieutenantGovernor in Council may by order permit the auditor general to participate in the *Public Service Pensions Act, 1991* or may by order stipulate other pension arrangements for the auditor general upon his or her appointment under this Act.

26. The auditor general may delegate in writing to an employee of the office authority to exercise a power or perform a duty of the auditor general other than reporting to the House of Assembly.

27. The auditor general may appoint an employee of the office as acting auditor general while the auditor general is absent from the province.

28. The auditor general may engage, on a fee basis, a person to act as his or her agent for the purpose of conducting an audit or examination that the auditor general is empowered to conduct or to perform a service that the auditor general considers necessary for a purpose related to the exercise or performance of the auditor general's powers and duties under this or another Act.

29. The auditor general, persons employed in the office and those persons employed or engaged by the auditor general under the authority of section 28 are not liable in a proceeding for an act done or not done or for a statement or report made by them in good faith in connection with a matter they are authorized or required to do under this Act.

30. Subject to *The Public Tender Act, 1984*, the auditor general may engage within the limits of the appropriation approved by the Legislature for his or her office and without the approval of the Treasury Board the professional services, including counsel, consultants, accountants and other experts and acquire goods that the auditor general considers necessary for a purpose related to the exercise or performance of his or her powers and duties under this or another Act.

31. Where the auditor general

(a) considers it necessary to report for the information of the Lieutenant-Governor in Council; or

(b) is required to report to the Lieutenant-Governor in Council for the purposes of this Act, especially in respect of a matter relating to the office, the report is made through the Minister of Finance.

32. (1) The Commission shall appoint a qualified auditor to audit annually the office.

(2) The auditor appointed under subsection (1), has the same powers and shall perform the same duties in relation to an audit of the office that the auditor general has or performs in relation to an audit performed under this Act.

(3) The auditor appointed under subsection (1) shall submit his or her report to the commission and send a copy to the auditor general.

(4) The Speaker of the House of Assembly shall table the report of the auditor under this section before the House of Assembly immediately after receiving the report by him or her or where the House of Assembly is not then in Session, on the 1st day of the commencement of the next ensuing Session of the House of Assembly or the 1st day after the House of Assembly resumes sitting following an adjournment of the House of Assembly.

33. (1) The auditor general shall submit annually to the commission for its approval estimates of the sums that will be required to be provided by the Legislature for the payment of the salaries, allowances and expenses of the office under this Act during the next ensuing fiscal year.

(2) The commission shall review and may alter as it considers proper the estimates submitted under subsection (1) and, upon completion of the review, the Speaker of the House of Assembly shall submit the estimates as approved by the commission to the House of Assembly for the purpose of inclusion in the estimates of the province for approval by the Legislature.

34. (1) Where the auditor general conducts examinations or audits an agency of the Crown or Crown controlled corporation, the auditor general may charge fees for professional services rendered by his or her office.

(2) The fees referred to in subsection (1) shall be established on a basis that may be approved by the Lieutenant-Governor in Council.

(3) The fees charged and collected by the auditor general under this section shall be paid into the Consolidated Revenue Fund.

35. (1) Persons in the employ of the Department of the Auditor General at the commencement of this Act are considered to have been appointed in accordance with this Act.

(2) Upon the commencement of this Act, the Department of the Auditor General is considered to be and is continued in the name of the Office of the Auditor General under this Act.

(3) A reference in another Act to the auditor general appointed under *The Financial Administration Act, 1973* or a reference in another Act to the auditor general shall be considered to be a reference to the auditor general appointed under this Act.

36. (1) Paragraph 2(a) of *The Financial Administration Act, 1973* is repealed and the following substituted:

"(a) "auditor general" means the Auditor General of Newfoundland appointed under the *Auditor General Act* and includes all employees acting under the auditor general's direction;".

(2) Sections 58 to 71 of the Act are repealed.

(3) Subsection 83(1) of the Act is amended by striking out the words "and the Auditor General" and the words "or the Auditor General".

Appendix II

Departmental Audits Performed by the Office of the Auditor General

General Government Sector

Consolidated Fund Services

Executive Council

Finance

Government Services and Lands

Legislative

Public Service Commission

Works, Services and Transportation

Resource Sector

Development and Rural Renewal

Environment and Labour

Fisheries and Aquaculture

Forest Resources and Agrifoods

Industry, Trade and Technology

Mines and Energy

Tourism, Culture and Recreation

Social Sector

Education

Health and Community Services

Human Resources and Employment

Justice

Municipal and Provincial Affairs

Appendix III

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by the Office of the Auditor General

Entity	Year End	Auditors Report
Department of Development and Rural Renewal		
Enterprise Network Inc.	31 March 1998	23 September 1998
Enterprise Newfoundland and Labrador	31 March 1998	Not completed
Farm Development Loan Board	31 March 1998	Not completed
Fisheries Loan Board of Newfoundland	31 March 1998	Not completed
Department of Education		
Provincial Information and Library Resources Board	31 March 1998	5 June 1998
Executive Council		
Advisory Council on the Economy	31 March 1998	26 May 1998
Newfoundland and Labrador Education Investment Corporation	31 March 1998	26 June 1998
Labrador Transportation Initiative Fund	31 March 1998	19 June 1998
Provincial Advisory Council on the Status of Women	31 March 1998	23 June 1998
Department of Finance		
Hotel Buildings Limited	31 March 1998	11 June 1998
Marble Mountain Development Corporation	30 April 1998	5 August 1998
Newfoundland Government Fund Limited	31 December 1997	16 April 1998
Newfoundland Government Sinking Fund	31 March 1998	11 June 1998
Newfoundland Industrial Development Corporation	31 March 1998	23 June 1998
Newfoundland Municipal Financing Corporation	31 March 1998	26 June 1998
Province of Newfoundland Pooled Pension Fund	31 December 1997	24 February 1998
Department of Forest Resources and Agrifoods		
Livestock Owners Compensation Board	31 March 1998	5 June 1998
Newfoundland Crop Insurance Agency	31 March 1998	5 June 1998

Appendix III

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by the Office of the Auditor General

Entity	Year End	Auditors Report
Department of Government Services and Lands		
Public Accountants' Licensing Board	31 December 1997	24 March 1998
Department of Health and Community Services		
Newfoundland Medical Care Commission	31 March 1998	9 June 1998
Department of Industry, Trade and Technology		
Bull Arm Site Corporation	31 March 1998	19 June 1998
Department of Justice		
Director of Support Enforcement	31 March 1998	18 June 1998
Newfoundland Legal Aid Commission	31 March 1998	5 June 1998
Office of the High Sheriff	31 March 1998	Not completed
Registrar of the Supreme Court of Newfoundland	31 March 1998	8 June 1998
Department of Municipal and Provincial Affairs		
Newfoundland and Labrador Housing Corporation	31 March 1998	17 July 1998
Department of Tourism, Culture and Recreation		
Heritage Foundation of Newfoundland and Labrador	31 March 1998	29 June 1998
Newfoundland and Labrador Arts Council	31 March 1998	24 June 1998
Department of Works, Services and Transportation		
C.A. Pippy Park Commission	31 March 1998	4 June 1998

Appendix IV

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by Private Sector Auditors

Entity	Year End	Auditors Report
Department of Development and Rural Renewal		
Newfoundland and Labrador Film Development Association	31 March 1998	29 June 1998
Department of Education		
Memorial University of Newfoundland	31 March 1998	29 May 1998
Memorial University of Newfoundland Pension Plan	31 March 1998	29 May 1998
Newfoundland and Labrador School Boards Association	31 March 1998	Not received
Colleges of Applied Arts, Technology and Continuing Education		
The College of the North Atlantic	31 March 1998	3 July 1998
School Boards		
District #1 - Labrador	30 June 1997	1 August 1997
District #2 - Northern Peninsula/Labrador South	30 June 1997	26 August 1997
District #3 - Corner Brook/Deer Lake/St. Barbe	30 June 1997	11 September 1997
District #4 - Stephenville/Port aux Basques	30 June 1997	5 December 1997
District #5 - Baie Verte/Central/Connaigre	30 June 1997	3 October 1997
District #6 - Lewisporte/Gander	30 June 1997	27 October 1997
District #7 - Burin	30 June 1997	17 November 1997
District #8 - Vista	30 June 1997	17 September 1997
District #9 - Avalon West	30 June 1997	18 November 1997
District #10 - Avalon East	30 June 1997	17 October 1997
School Bus Systems		
School Bus Transportation Services of School District #3	30 June 1997	31 July 1997
Department of Environment and Labour		
Multi-Materials Stewardship Board	31 March 1998	15 May 1998
Workplace Health, Safety and Compensation Commission	31 December 1997	Not received

Appendix IV

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by Private Sector Auditors

Entity	Year End	Auditors Report
Department of Finance		
Marble Mountain Management Corporation	30 April 1998	30 June 1998
Newfoundland Liquor Corporation	31 March 1998	9 July 1998
Department of Fisheries and Aquaculture		
Newco IV Corporation	31 December 1997	23 April 1998
Professional Fish Harvesters Certification Board	31 December 1997	27 February 1998
Department of Forest Resources and Agrifoods		
Newfoundland Farm Products Corporation	28 March 1998	30 September 1998
Department of Government Services and Lands		
Credit Union Deposit Guarantee Corporation	31 December 1997	12 February 1998
Board of Commissioners of Public Utilities	31 March 1998	11 June 1998
Department of Health and Community Services		
Newfoundland and Labrador Health Care Association	31 March 1998	22 May 1998
Newfoundland Cancer Treatment and Research Foundation	31 March 1998	3 July 1998
Provincial Genetics Program	31 March 1998	15 June 1998
Provincial Perinatal Program	31 March 1998	9 June 1998
Public Health Laboratory	31 March 1998	23 September 1998
Community Health Boards		
Central Regional Health and Community Services Board	31 March 1998	12 June 1998
Eastern Regional Health and Community ServicesBoard	31 March 1998	15 June 1998
St. John's Regional Health and Community Services Board	31 March 1998	17 June 1998
Western Regional Health and Community Services Board	31 March 1998	Not received

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by Private Sector Auditors

Entity	Year End	Auditors Report
Department of Health (cont'd)		
Regional Hospital Boards		
Avalon Health Care Institutions Board	31 March 1998	30 July 1998
Central East Health Care Institutions Board	31 March 1998	13 August 1998
Central West Health Board, Inc.	31 March 1998	4 September 1998
Grenfell Regional Health Services Board	31 March 1998	29 May 1998
Health Care Corporation of St. John's	31 March 1998	15 June 1998
Health Labrador Corporation	31 March 1998	24 July 1998
Peninsulas Health Care Corporation	31 March 1998	25 August 1998
Western Health Care Corporation	31 March 1998	25 September 1998
Nursing Homes		
Pentecostal Assemblies - Clarke's Beach Senior Citizens Home	31 March 1998	21 July 1998
St. John's Nursing Home Board	31 March 1998	26 August 1998
Department of Industry, Trade and Technology		
Marystown Shipyard Limited	29 March 1998	30 September 1998
Newfoundland Hardwoods Limited	31 March 1998	17 September 1998
Newfoundland Ocean Enterprises Limited	29 March 1998	30 September 1998
Vinland Industries (A Limited Partnership)	29 March 1998	30 September 1998
Vinland Industries Limited	29 March 1998	30 September 1998
Department of Mines and Energy		
Churchill Falls (Labrador) Corporation Limited	31 December 1997	2 February 1998
Gull Island Power Company Limited	31 December 1997	2 February 1998
Lower Churchill Development Corporation Limited	31 December 1997	2 February 1998
Newfoundland and Labrador Hydro Electric Corporation	31 December 1997	20 February 1998
Twin Falls Power Corporation Limited	31 December 1997	2 February 1998

Appendix IV

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by Private Sector Auditors

Entity	Year End	Auditors Report
Department of Municipal and Provincial Affairs		
Municipal Assessment Agency Inc.	31 March 1998	Not received
Department of Tourism, Culture and Recreation		
The John Cabot (1997) 500th Anniversary Corporation	31 March 1998	2 June 1998